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The Bank publishes from time to time in this Review *signed articles by exponents of different theories on questions of public interest. The Bank is not necessarily in agreement with the views expressed in these articles. They are published in order to stimulate free discussion and full inquiry.*

Econ

The Problem of Retrenchment*

By Sir Hubert Henderson

EMBARRASSED public finances are a normal sequel to a major war. The balancing of the British budget by the instruments of taxation then available remained a difficult problem for several decades after Waterloo. Indeed, the national debt charge probably represented then a higher proportion of the national income than it does today; and, as Sydney Smith's famous diatribe indicates, complaints were no less widespread that the taxation imposed was oppressive and injurious to trade. But hitherto after wars, even that of 1914–18, time gradually brought relief. Defence expenditure quickly returned to peace-time levels; the debt charge was reduced by sinking funds or by conversion operations; and, what was more important, its effective burden was greatly eased by the agreeable tendency which our ancestors termed the buoyancy of the revenue. The national income increased rapidly, reflecting partly the growth in the numbers of the income-earning population, and partly the growth in their average earnings per head. The yield of taxes increased correspondingly and it was thus possible both to reduce taxation rates, and to embark on new policies involving additional expenditure.

Such has been our experience in the past, and most of us are apt to assume subconsciously that it will eventually be repeated. Unfortunately, there is little in the basic facts of the present day to justify this cheerful supposition. The phase of falling aggregate expenditure which followed the War has already come to an end; and for the future it seems not unlikely that expenditure on the basis of existing policies will increase a good deal faster than taxation yields. Various elements, some raising difficult issues for practical politicians, others more fundamental and intractable, enter into this prospect; and it may be well to review them briefly.

The main headings of our budgetary expenditure are defence, the service of the national debt, the social services, and administration. Expenditure on defence has come down from its war-time heights to a figure which is still well above

* Readers of this article should refer to the chart on Government Expenditure on page 44 in the Statistical Section.

£700 millions. The comparable figure for the 1920's was about £120 millions; and, if we assume that the value of money has fallen by one-half, the real cost now is about three times as great. Clearly, however, in the present uneasy condition of world politics, it would be rash to assume that further large reductions could be made. It may well be that our present arrangements might be improved so as to obtain a greater degree of effective military strength from a given expenditure. But nothing could be more short-sighted or dangerous than to plead economic or financial difficulties as an excuse for failing to play our full part in the defensive system contemplated by the Brussels Treaty and the North Atlantic Treaty.

Still less is there any reasonable prospect of relieving the budgetary charge for the service of the national debt. During the War, we were amazingly successful, by past standards, in keeping down the interest rates at which the huge war-time borrowings were made; but this success rules out the possibility of obtaining further relief now by conversion operations. It is fairly arguable, indeed, that relatively to the huge capital burden of the debt, the present interest charge is artificially low. It would certainly undergo a material increase if Bank Rate or short-term money rates were to be raised at any time. The desire to keep the debt charge down is thus a major element in the problem of money rates, and constitutes a powerful obstacle to the use of the chief traditional instrument for countering inflation.

It is true that our present financial policy is based on the principle of seeking to maintain for the time being, and for as long as conditions remain prevailingly inflationary, a budget surplus, as reckoned by the accounting standards of the past. For various reasons, however, this seems unlikely to do much, if anything, to relieve the burden of debt. First, the surplus is precarious. It might quickly disappear in the event of a reduction of profit margins; it may be abandoned because of the difficulty of maintaining it in face of the rising tide of expenditure; and it is part of the current economic philosophy that it should be replaced by a budget deficit, as a matter of deliberate policy, if unemployment or trade depression were to develop. Second, even under existing conditions, it does not now do more than cover additional Governmental borrowings for new capital purposes, many of which are

financially unremunerative. Much credit is undoubtedly due to the present Chancellor of the Exchequer for presenting the national accounts in a more realistic manner. But it would be optimistic to suppose that our modernized financial technique will do as much to repay debt over a period of years as would have been achieved by a moderate sinking fund of the old-fashioned type.

Thus the factors which have contributed most to lower expenditure after previous wars contain little promise of relief today. It is, however, when we turn to the other side of the picture that the prospect becomes alarming. In the last few years, there has been a large and rapid increase in expenditure upon the social services; and this expenditure must be expected to continue to grow rapidly as a more or less automatic consequence of policies which are already operative. On some of the purposes falling under the category of the social services increased expenditure was, of course, inevitable in order to repair the ravages of war. This is notably true of housing; a big house-building effort was clearly necessary; and it was no less clear that large Exchequer subsidies would be needed to finance it. In fact, the eventual cost of the housing programme will necessarily be increased by the much higher standards of space and equipment laid down for the new houses. For the most part, however, the increase in social service expenditure arises from the adoption of three new, ambitious schemes: comprehensive National Insurance, the Education Act, and the Health Service. The existing cost of the insurance scheme is mainly defrayed by the contributions of employers and employed; but the Exchequer is to bear the burden of future increases in this expenditure, and for Old Age Pensions a very large increase is expected mainly because of the large inevitable growth in the numbers of the elderly and aged. The Government Actuary has estimated the probable cost of retirement pensions as follows:—

	£ millions
1948	238
1958	301
1968	421
1978	501

The Royal Commission on Population, in citing these figures, adds the observation that they are based " on assumptions

which make no allowance for any future fall in mortality, and therefore probably understate the cost for future years."

Expenditure on education and the health service may perhaps increase even more rapidly. This is kept down for the time being by physical limitations—by lack partly of schools and hospitals; partly of teachers, doctors, nurses and dentists; partly of certain drugs and medicines. It is obviously important to overcome these limitations, but, in proportion as we succeed in doing so, the expenditure will necessarily increase. This applies more especially to the health service. The cost of this is already far larger than was estimated; yet it is clear that the demand for its facilities has not been nearly satisfied. This demand, moreover, is certain to increase steadily in future as another consequence of the growth in the numbers of the elderly. Men and women over 65 have a much more frequent need for medical attention than have those in the prime of life.

According to the calculations of the Royal Commission on Population the number of those over 65, which was about 5 millions in 1947, is likely to increase to about 7,300,000 in 1977, even if there is no further fall in mortality rates, and to about 8,200,000 if they continue to fall further at the rate at which they have fallen hitherto. If the health service fulfils its purpose it would be natural to hope for a speeding-up in the process of reducing mortality, so that, catastrophes apart, the latter assumption seems very moderate. This would mean an increase over the next generation of about 64 per cent. in the number of those over 65 years of age, who will then represent about one-sixth of the total population. There is no means of computing the additional demands which this charge will throw upon the health service, but it is obvious that they will be heavy. This prospect has to be considered in conjunction with the fact already mentioned that the demands which the health service is designed to meet are at present only partially satisfied because of the physical limitations which we are striving to overcome. It is not easy in these circumstances to set limits to the probable growth of the health service expenditure, now some £300 millions.

The budgetary outlook is affected by the prospective change in the age distribution of the population in yet another way. While the numbers over 65 will grow rapidly in the next thirty years, the numbers of those of working age will probably

remain fairly stationary. We shall thus be deprived in future of the aid of one of the main factors which have contributed to the buoyancy of the revenue in the past; namely the growth in the numbers of the income-earners. It is only in so far as we earn more per head that we can expect the yield of taxes to increase during the next generation. No doubt we may fairly hope for a considerable increase from this service as the result of continued technical progress. But this provides a somewhat precarious basis for an expanding revenue. It is exposed to the vicissitudes of trade fluctuations, and of our national economic fortunes in a highly uncertain world. It is easy to make optimistic calculations, it is less easy to feel confident that the expansion of revenue resulting from increased productivity will suffice to keep pace over a period of years with the semi-automatic increase in expenditure on our existing social schemes.

The grim financial outlook to which these considerations point is relieved to some extent by other possibilities. Not that it would be wise to hope for large net savings in the costs of administration. It should be possible to reduce gradually the size of the staffs now engaged in administering controls; but against this some further increase will most likely be needed in the staffs which administer the expanding social services; and sooner or later the claims of civil servants for higher salaries will have to be met. A much more promising field for future economies is to be found in the £450 millions or so which are at present spent on the food subsidies. As a short-term matter, the problem of effecting substantial savings in this expenditure is peculiarly difficult, bound up as it is with the endeavour to stop wage increases in a sellers' labour market. On a long view, however, the maintenance of the greater part of this expenditure, i.e., that part which is directed merely to keeping down the cost of living, cannot possibly be justified. Eventually, it should undoubtedly be possible to effect a considerable saving under this heading, even though expenditure on children's allowances may be increased in partial compensation, and though the consequences may be a further fall in the purchasing-power of money accompanied by somewhat higher money incomes.

This leads to another consideration. The revenue yield is increased by anything that raises the level of money incomes; that is to say, subject to time-lags, it is increased as much

by inflation as by greater productivity. Unfortunately, the former tendency serves, as the latter does not, to increase public expenditure correspondingly, subject again to time-lags, under almost every heading. But there is one category to which this does not necessarily apply, namely the service of the national debt. If, therefore, as the devaluation of sterling and the recovery of trade and prices in the United States combine to make probable, we move gradually towards a further moderate reduction in the purchasing-power of money, the budgetary position may derive therefrom some appreciable relief. Our need for such relief may indeed be regarded as one of the many reasons why the 1949 devaluation was essential.

This, however, is a treacherous line of argument. To resist inflation, to keep the rise of prices and costs consequential upon devaluation down to the minimum is a main objective of official policy. And rightly so. The problem of the balance of payments and the dollar gap has still to be solved. It can only be solved if British export prices remain relatively cheap over a wide trading range. The margin which this condition leaves available for future increases in costs of production in Great Britain is certainly a narrow one. As international competition becomes keener with the return of Germany and Italy to world markets, it may well prove narrower than now appears. Nor does any hope lie in the possibility that an excessive level of British selling prices might again be corrected by a further devaluation. Along that road, the danger of a vicious spiral of inflation and exchange depreciation would be very real. In the process, moreover, the possibility, relevant to the present argument, that the budgetary stringency might be eased by a reduction in the real burden of the debt charge, would almost certainly be destroyed by the need for a much higher level of short-term interest rates.

Thus the favourable elements in the financial outlook are neither big nor sure; and the broad impression emerges that it may not be easy, in practice, to keep the total of public expenditure from growing as fast as the revenue from existing taxes. Then comes the most formidable fact of all. Our existing taxes are extremely high—far higher, there is only too good reason to fear, than is reconcilable in the long run with full efficiency in the working of the economic mechanism, and far higher, it may be suspected, than would be regarded as

permanently tolerable by any section of public opinion. There are some, no doubt, whose first impulse would be to dispute this proposition, because the idea of high taxation is still associated in their minds with taxation concentrated on the wealthy in the interests of egalitarian redistribution. But this process has long ago been carried as far as is practicable, or at any rate helpful to the revenue. The present rates of many of the most prolific of our indirect taxes, as well as of our direct taxes, are essentially emergency rates, and were in fact justified by emergency arguments when they were first imposed. This applies notably to the tobacco duties and to the purchase-tax, which were raised to the present heights on dollar-saving or counter-inflationary grounds. Any suggestion that these taxes should be maintained permanently at their present rates would be especially repugnant to most of those who acclaim high income-tax, sur-tax, and death duties. Nearly everyone still cherishes the hope that the day will come when some tax or other which he finds particularly onerous will be drastically reduced.

The slenderness of the chance of a material improvement in the budgetary position implies, of course, that there is a correspondingly small margin available for new types of expenditure, including any that might be necessitated by unforeseen contingencies. Before 1914, when the income-tax was in the neighbourhood of a shilling in the pound, proposals to increase the income-tax were frequently criticized on the ground that a high income-tax was an instrument which should be kept in reserve for the possibility of war. Such precepts may arouse a nostalgic smile today; but it is a serious defect of our present arrangements in the sphere of public finance, as indeed in that of our balance of payments and of the efforts to eliminate inflation, that they all assume the continuance of fair weather, and contain no safety margin.

The picture is not yet complete. There is no real public awareness of the seriousness of the financial problem that has been described. The prevailing mood on questions of Government expenditure remains astonishingly complacent. On other matters, notably, for example, dollar purchases, the need to economize and to put up accordingly with irksome deprivations is widely recognized throughout the community. The response of the trade union movement to the appeal for a wages standstill indicates a growing readiness to subordinate sectional interests

to the national needs in a sphere in which the pursuit of a self-regarding policy was previously regarded as mandatory. But on matters of Government expenditure there is a deep psychological resistance to the very idea of economy, as something which is supposed to be both socially reactionary and intellectually outmoded.

This state of mind, which accords so ill with the underlying facts, is due partly to the persistence of illusions which war-time conditions always generate and partly to new currents of economic thought issuing from the depression of the 1930's. These include a repudiation of the old orthodox belief that budgets should be balanced year by year. The modern prescription is that budget deficits are appropriate in times of depression and budget surpluses in times of inflation or boom. In principle, this is a very reasonable idea, though it is permissible to doubt whether its application will prove consistent in practice with long-term budgetary solvency. But the point to note is that the prevalence of this idea, and its application in the past two years in the form of an ostensible budget surplus designed to check inflation, greatly weaken the association in the public mind of increased expenditure with increased taxation. The consideration that a proposal, estimated to cost a given sum of money, would necessarily mean so much on the income-tax or so much on beer used to act as a much stronger restraining influence than is ever likely to be exerted by calculations that it would cut down a budget surplus below the figure needed to absorb inflationary pressure.

This represents a serious flaw in the idea of trying to check inflation by a budget surplus. So long as a surplus is believed to exist, the power of a Chancellor of the Exchequer to resist increases of expenditure, still more to enforce economies, is greatly weakened *vis-à-vis* the members of his Party, and *vis-à-vis* his colleagues; and perhaps his own determination may be weakened too. Now increasing expenditure is inherently inflationary. It is an illusion to suppose that its inflationary influence is cancelled if it is matched by a commensurate increase in taxation, for the taxation may be largely or even mainly defrayed by reduced savings or by capital consumption. Such forms of increased taxation as the capital levy of 1948 or the higher death duties of 1949 must be met almost wholly in this way. If, therefore, a budget surplus, raised largely by such means, weakens the restraints

upon Government expenditure, its ultimate effect may well be to strengthen the inflationary pressure it was designed to relieve.

The strongest of the influences which make the idea of public economy unpalatable is, however, the hold which the concept of the Welfare State has gained over the public mind, and more especially the popularity of the health service. It is upon the social services in general, and the health service in particular, that expenditure has increased most rapidly in recent years and is most likely to continue to increase. This is the field in which revisions of policy are most needed, if the growth of public expenditure is to be kept within tolerable limits. But it is precisely in this field that the idea of economy is most repugnant, for reasons which it is easy to understand.

The leading part in the development of the social services in the present century has been taken by Great Britain, together with New Zealand and Australia. But they no longer represent a peculiarly British institution. Though there are important differences of method, degree and pace, measures of a welfare-state type are being introduced today throughout a large part of the world. Indeed, the common pursuit of policies of this type by countries with very different economic philosophies, and including notably the United States, constitutes one of the outstanding economic and social phenomena of the present time. Nor can there be any reasonable doubt that this is, in the main, a desirable tendency. The establishment of the social services in Great Britain has been justified by their results. They have done much to improve health and vigour, and to abolish the destitution which was so widespread forty years ago. This achievement is the more remarkable in view of the exceptional economic troubles by which the British economy was afflicted in the inter-war period, resulting from the large-scale loss of export trade by major industries of a highly localized type. These troubles served to obscure the important part which our social expenditure almost certainly played in sustaining demand in a period of depression and thus acting as a steadying element in the national economy. Nor was the fact that social expenditure formed one of many factors involving rates of taxation as high as those of the inter-war years a really cogent objection. Up to a point, and indeed to quite an advanced point, there is truth in the claim that the advantages of a less unequal distribution of net income outweigh the disadvantages of the deterrent effects of high taxation.

It is my view, at any rate, that for these reasons the good name which the idea of the social services has acquired is well deserved. Hence the manifest widespread reluctance, almost universal in Parliament at present, to adopt any line of argument or to make any suggestion which could plausibly be represented as an attack on the social services. Public controversy insists on sharp contrasts and clear-cut issues, and rejects like high Heaven " the lore of nicely calculated less or more." Yet, in this matter, the " less or more " is the crux of the problem. Before the recent War, the expansion of the social services was undertaken gradually and cautiously, and due regard was paid at every stage to financial consequences and resources. But during the War, in the planning of the new welfare world, caution and moderation were in effect abandoned. A hazy notion prevailed that internal financial considerations did not matter, and that objections on grounds of finance to any expenditure which could be represented as a mere redistribution of purchasing-power were in some way fundamentally fallacious. Thus the way was cleared for the introduction, with the support of all Parties, of the three new large measures named above, and for their development, in face of only intermittent and half-hearted criticisms, along peculiarly lavish lines.

In the health service, in particular, it is clear that the principle of free collective provision, as distinct from subsidized provision, has been carried much too far—further than would be justified even if our national financial position were a fairly comfortable one. It is an illusion to suppose that the need for medical attention or treatment or medicinal supplies is always a simple clear-cut objective matter, in which it is fundamentally wrong that the ability of the individual to pay should exert any restraining influence. That is true of some complaints, and of some types of treatment ; it is by no means true of all. The responsibility which our present arrangements throw on the decision of the doctor, subject to general exhortations to avoid extravagance, is dangerously great, and is likely to lead increasingly to anomalous and indefensible differences in the treatment of different individuals. The introduction of a shilling charge on prescriptions marks the recognition of the need to make some retreat from the principle of free provisions. But the retreat will have to go much further, and extend over a much wider front, if health service policy is to be brought into accord with economic realities.

It is not, however, the purpose of this article to adumbrate a programme of retrenchment, but to plead for a wider and clearer understanding of the need for one. Since the end of the War, attention has been concentrated mainly on our external difficulties: the balance of payments and the dollar gap. Undoubtedly, these difficulties call for concrete remedial measures, such as import restrictions, which operate directly in the external sphere. It may often be justifiable to adopt measures which are calculated to save dollars at the cost of some addition to the budgetary burden, though this is a principle which should be only cautiously applied. But our internal and external economic affairs cannot be treated as though they belong to separate, water-tight compartments. Our internal financial policy is linked with our balance of external payments by the influence which it exerts in maintaining an excessive aggregate demand in our economy, and thereby serving both to raise the prices of our exports and to reduce the volume of goods that can be made available for export. The importance of this connection has been officially recognized by the economies of last October, though whether these economies will prove adequate for their purpose remains doubtful in the extreme.

The complete removal of the inflationary pressure from our economy is vital to the solution of our external problem; and retrenchment in public expenditure is an essential condition of the removal of inflationary pressure. Devaluation, and the recovery in the United States from what was never more than a mild recession, have given us further time in which to achieve this task. But the events of 1949 contain a warning which we should do well to heed. They show how serious are the dangers we shall run if sellers' markets disappear in the outside world before inflation has been arrested at home. That is a conjuncture of circumstances which a country in a weak balance-of-payments position must do its utmost to avoid. Yet, if the argument of this article is correct, this is a danger which is almost certain to recur unless we make haste to introduce into the sphere of our public finance something of the austerity which is applied in so many other branches of our economic life.

HUBERT HENDERSON.

January, 1950.

Public Bodies and Public Accountability

By Roland Bird

> "What does Lord Swinton hope to gain by an inquiry and what form is the inquiry to take? Is it to inquire into what has happened in the past? If so, all the information is contained in the report. If he wants the inquiry to deal with the future, the Corporation intends to carry out the programme already explained by the Minister. As for the accounts, the Public Accounts Committee of the House of Commons is fully competent to examine them and send for persons and papers, and the Committee has already commenced an examination."
>
> Lord Hall, in the Ground-nuts Debate,
> 14th December, 1949.

IT would, perhaps, be unfair to use without qualification these words of the chief Government spokesman in the recent debate on the ground-nuts scheme in the House of Lords as a text for this discussion. Debates on the work of the Overseas Food Corporation have produced much contention and argument, but they have not been noteworthy for the disclosure of principles by reference to which the work of public corporations should be conducted and their behaviour brought under responsible criticism. As we are now discovering, these principles of public control and public accountability were largely left on one side during the post-war spate of nationalization which created so many new public boards. It is no purpose of this article to examine the experience and management of the ground-nuts scheme. But even its most devout admirers would concede that it has, in some respects, been disappointing, and its sterner critics have argued that there is a matter of primary public interest in re-examining the scheme and its organization to see whether the work and aims of the Overseas Food Corporation could be achieved more effectively by other methods.

The ground-nuts episode and Lord Hall's reply to critics in the House of Lords are both revealing and alarming. The past is over and can bury its mistakes; the future has been mapped by the Minister and no one is to question the accuracy and comprehensive character of his planning; as for the question of financial management, into which professional accountants of high repute have already looked and have reported unfavourably, the public will have to be content, at

this late stage, with the further comments of the Public Accounts Committee. These attitudes would be scarcely comprehensible, save on one easily made and dangerous assumption. They postulate, as perhaps a majority of people still tend to assume, that public undertakings will automatically serve the public weal; that it is in their nature to be honestly and efficiently administered for the general welfare of the public; and that their conception of the public interest (towards which they are ever encouraged by so watchful a guardian as a Minister of the Crown) must, by reason merely of their public ownership and responsibility, have some superior quality denied to the competitive rough and tumble of the market place. That such views may be honestly entertained by some of the new public boards and nationalized industries does not make them any the less objectionable, and perhaps they are most insidious when they are only half-formulated. It is always agreeable to a monopolist to be able to strike an attitude of benevolence, and the public monopolist, who has no ambition of profit in the commercial sense and is under a statutory obligation to provide " adequate " service at " economic " prices, finds it a singularly comfortable posture. So long as there is no outrageous disregard of the broadly-defined duties with which the boards and corporations are charged, it can always be represented that they are doing their best according to their lights and within their resources of manpower, capital and skill; it soon becomes quite extraordinarily difficult for criticism genuinely directed towards the public interest to puncture such an attitude of well-meaning complacency.

There is the further danger that facts on which criticism can be brought to bear become more difficult to discover in good time. The public boards are free enough with facts, but they prefer to choose their own time to publish them. Apart from such regular statistics as the weekly figures of coal output and the monthly traffic receipts and operating statistics of inland transport, there is no detailed information on which to base a fair but critical survey of the boards' achievements except that which is published in the annual reports. These are, indeed, most valuable and informative documents. Such reports as those from the National Coal Board and the British Transport Commission are public documents of high importance and great technical merit. No

one, for example, with any knowledge of accounting could fail to appreciate the neatly-fitting elegance of the British Transport Commission's accounts for 1948, published last September. The accounts and their supporting schedules and notes were as informative as ingenuity could contrive to make them; they threw clear light on all the financial complexities of an undertaking whose receipts in 1948 were not far short of £500 millions and whose assets and liabilities are entered in the books at over £1,650 millions. A similar statistical and accounting deftness is to be found in the annual reports of the National Coal Board. It is sometimes argued that this is enough—that disclosure of the facts in the annual reports is all that the public needs, either to commend the policies pursued by the boards or to condemn errors and lead to their correction. It is an argument which owes much to an analogy drawn with the affairs of limited liability companies; the underlying purpose of the Companies Act of 1948 is to provide shareholders with all the facts they could require, and to secure that full publicity about the facts will enable them to control the affairs of the companies of which they are the legal owners. The analogy has even been pursued in recent debates in the House of Commons on the reports of the National Coal Board and of the British Transport Commission, which, it was said, might be likened to annual meetings of shareholders called together to discuss the directors' report and accounts.

A little experience of shareholders' annual general meetings would have destroyed this simple-minded notion from the start. The criticism which poorly-managed companies attract expresses itself in several effective ways long before the shareholders' turn comes. It is expressed when labour moves off to other jobs, when the top technical staff can stand frustration no longer, and when customers do not place orders. A company which wants to stay in business recognizes these danger signals and does something about them. But (with the inevitable exception of the ground-nuts scheme) it is much more difficult to recognize the warning signs in most of the nationalized industries. Several of them are incapable, under present conditions and at present prices, of satisfying the total demand for their product, and, since no competitor is allowed to assist them in this task, they may appear to enjoy commercial success even though in fact their efficiency may be lower than it should be.

But there are other reasons for rejecting the offer of an annual report and a single day's debate in Parliament as an adequate review of the work of public boards. One objection is delay. The British Transport Commission's first annual report, for 1948, was published on 7th September, 1949, and it was not until 1st December that a debate took place on the report in Parliament. No doubt in future years the Commission will be able to issue its report appreciably earlier, but, given an organization of this magnitude, some fairly considerable delay is inevitable. A second objection is the total inability of the House of Commons, on a formal Parliamentary occasion, to provide a temperate and objective survey of the work of a nationalized industry during a period which in fact closed many months earlier. Although there have been only two such debates, they have already set a pattern, and it is not an auspicious pattern. The Minister opens the debate with a formal statement which need do no more than recapitulate some of the main points in the Public Relations Officer's summary of the report. He then turns to more current topics—coal prices or transport charges—and by the time the first Opposition speaker has made his much-interrupted reply, the stage is set, not for a sober review, but rather for a display of back-bench backbiting. It becomes a rambling and incoherent debate, to which even the sheepish silence of the average shareholders' meeting might be preferred.

A third objection is that an efficiency audit of a nationalized industry or public board should be a continuous process of economic appraisal; such a process, if it is to succeed, should be as far removed from the sphere of purely political argument as possible. One of the major Parties is predisposed in favour of nationalization as an instrument of economic and industrial development. The other Party distrusts the notion that nationalization offers a ready-made solution of the problems of economic change. But even the objectors concede that certain acts of nationalization which have already taken place are now irrevocable; thus, beyond their objections, there is now a vital interest of the consumer—industrial and personal—in the efficient conduct of the coal, transport and electricity industries, to name only the major examples of nationalization which are probably here to stay. What is wanted, therefore, is an independent, non-party examination of the nationalized industries, exercised by a continuing body, and motivated by the single aim of fostering the consumer's interest.

The fourth objection to the present arrangements arises from the anomalous position of the Minister in relation to the public boards. It is he who, in theory, should act as the guardian of the public interest. He has the power of appointment to the boards; he is entitled to issue directions to them in matters affecting the public interest, and such directions must be carried out by the boards; he lays down the form in which the boards report, and he has to sanction their major programmes of capital expenditure and development. If a board gets too big for its boots, a determined Minister might be able to mend its ways. But, in this matter of size, the Minister is dealing with leviathans of his own creation. It was once said that the London Midland and Scottish Railway was so big that it was barely capable of being managed by all the skill and capacity of mere human beings. Yet the L.M.S. was only one of four railways, themselves brought together with road haulage and passenger transport, London Transport and the canals and docks to form a single industry providing all forms of inland transport. If it were to happen that the British Transport Commission should fail in its duty to provide " an efficient, adequate, economical and properly integrated system of public inland transport and port facilities " what could any Minister, whatever his political complexion, do to put the Commission's shortcomings right? Where they had failed, could he hope to succeed merely by a string of new appointments and general directions? A Labour Minister cannot afford the political risk of open admission of mistake, much less failure, of the bodies which he or his colleagues have created. A Conservative Minister, quite apart from any question of political sympathies, could not be expected to put mistake or failure right by exercising some special magic which the proponents of nationalization had hitherto failed to discover.

The obvious danger is that Labour Ministers who bear the political responsibility for particular public boards will be predisposed to act as apologists for them, to accept inadequacies as passing episodes which time will put right, and to lack the inclination to interfere in their work except in matters of inescapable public interest. They will be inclined—to conjure up an example not too imaginary—to accept in principle the case put forward, say, by the Transport Commission for an increase in freight charges without first demanding proof that its affairs are already being conducted with maximum efficiency.

If any means can be discovered of relieving Ministers, of either political colour, of the political overtones which now arise in their dealings with the nationalized industries, it will be healthier both for politics and for economic and industrial efficiency.

II

It is easier to propound the various objections to the present ways in which the affairs of the new public boards are brought under review by the public than to offer any cut and dried proposals for improvement and reform. But the objections point to three main ingredients which must be present in any reform. First, it must be devised to secure the best interest of the consumer, and to ensure that pressure by any other interests—whether of management, labour or political groups—is defeated. Secondly, it must command general respect for its independence and effectiveness. And thirdly, it must release Ministers from the nationalized prisons which they have constructed for themselves. The new agencies have not been working long enough to prove themselves—we have two annual reports from the Coal Board and only one from the Transport Commission, and the machinery for the representation of consumers' interests (which is at best consultative and never seemed very impressive) has yet to demonstrate what it can do. But enough experience has already been gained about the limitations of the real element of public control which is now exerted over the boards to suggest the need for the creation of some totally new authority which would be responsible for the general oversight of their work and commercial policy. In coal, such elements of competition as were present before the War in the home market have been swept away and the Minister enjoys what amounts to a non-statutory control over domestic prices—though not over export prices, it seems, where questions of dual-pricing policy might otherwise cause him embarrassment. In transport, the Transport Tribunal (which is in essence the Railway Rates Tribunal with a new name and wider powers) will eventually have power to approve transport charges; but in the "transitional phase"—a phase which is likely to be with us for some years yet—it is the Minister who decides (after seeking advice from the Tribunal) whether changes in charges should be made.

Unfortunately, no amount of accounting and cost analyses

from these and other nationalized industries (and some most valuable figures are produced) satisfies the basic question which any consumer is entitled to put about the charges that he has to pay. He is prepared to pay an economic price from which the industries can meet their expenditure, including proper (but not extravagant) wages and conditions, and adequate provision for the maintenance of their undertakings and interest on their capital. But what he wants to know is whether a given charge enables a public board not merely to cover these various expenditures but also to absorb a good deal of internal waste and inefficiency besides. Suppose that there are radical improvements in cost-cutting technique: how is the consumer to be certain that he gets his due share of benefit? Matters of this kind cannot be studied in a half-day's debate, where most of the speeches are addressed, not to the facts, but to members' constituents. Nor is it wise to add to an already overburdened House of Commons the task of debating nationalized industries on any of the twenty-six Supply days. These are no more than enough to allow adequate discussion of the administration of Government departments, and it would be a serious mistake to reduce them, even to allow an opportunity for regular discussion of nationalized industries, during a period when public expenditure absorbs more than one-third of the national income.

Nevertheless, it is worth seeking guidance about this problem of adequate public supervision of the new public bodies from the well-established technique of control of public expenditure. Those two great democratic safeguards, the Committees of Ways and Means and of Supply, could not function effectively without the closer scrutiny of proposed expenditure in the Committee on Estimates, and without the particular work of investigation and inquiry conducted by the Committee of Public Accounts. Both of these Committees have a full load of work, and it is questionable, to put it no higher, whether either of them provides an appropriate body for investigating the activities of nationalized industries. The Committee on Estimates considers whether any economies can be made in the estimates, "consistent with the policy implied in those estimates"—a limiting condition which does not make its check on anticipated expenditure any easier. The Committee of Public Accounts is concerned with seeing that public money has been spent only with proper statutory authority, for the purposes voted by Parliament, and without

avoidable administrative waste. Its work is, therefore, entirely *ex post facto*. The Public Accounts Committee is less than 100 years old, for it was first set up in 1861, and it was not until five years later that the Exchequer and Audits Act was passed which created the Exchequer and Audit Department, under the control of the Comptroller and Auditor-General. The Comptroller and Auditor-General is not a civil servant but a servant of Parliament, who cannot be dismissed except by the vote of both Houses. The Exchequer and Audit Department is staffed by civil servants, to the number of about 500, who conduct a current audit of Government expenditure—not of course in anything like complete detail, but mainly by test checks of particular expenditures. Obviously, a staff of this size cannot do much more than satisfy itself about the principles of internal audit in the departments and make a shrewd selection of particular branches of expenditure which might usefully attract public comment. The whole pyramid of control over expenditure is fashioned on the principle of selection—the choice of the twenty-six Supply days which rests with the Opposition; the selection (usually, of course, a very careful selection) by the Exchequer and Audit Department, from among the hundreds of possible cases, of particular matters for detailed inquiry which may provide one of those cautiously phrased, yet highly effective, paragraphs in the Comptroller's reports; and the emphasis which the Public Accounts Committee may itself put on particular points, in its examination of the departmental officials concerned.

There are two main reasons why the work of the Public Accounts Committee on departmental expenditure is of particular relevance to the supervision of the new public boards. The first is its non-partisan approach. The Committee consists of fifteen members, selected roughly in proportion to the representation of Parties in the House, with a chairman drawn from the Opposition. But it is not a political Committee and its members hardly ever act as if it were. Secondly, the Public Accounts Committee works within the realm of hard fact. It is briefed by the Comptroller's reports; it has power to send for persons and papers and it hears and examines witnesses. Last June, the Committee questioned a member of the National Coal Board on the report and accounts of the Board (in about forty questions) on such matters as the fixing of prices and the financing of the Board's deficit for the previous year. It has quite recently undertaken an examination

of the report and accounts of the Overseas Food Corporation. Its usefulness, of course, is not confined to the particular questions on which it reports; its work has a salutary effect in preventing unauthorized and wasteful expenditure in all branches of government. It has added to its labours the scrutiny of the trading accounts and commercial policies of those departments (such as the Ministry of Food, the Raw Materials Division of the Board of Trade and the Ministry of Supply) which are responsible for the vastly extended trading and bulk purchase operations conducted on Government account.

It may be asked whether the Public Accounts Committee is not the best medium for exercising broad public supervision of the new public boards. The Committee has vigour and power; it is backed by an expert department; and it has a long tradition of authority. But a number of points are immediately raised by such a question. If a public board is receiving a grant from public funds to cover a revenue deficiency, the Committee's duty to investigate the board's expenditure cannot be gainsaid. Most of the boards, however, are intended to cover their revenue expenditure, and it would be surprising in the long run if they failed to do so, since they enjoy a statutory monopoly. What happens, in that event, to the rights of the Public Accounts Committee? May it still send for an officer of a public board to answer for its behaviour even though no Government expenditure is in question? Further, the Committee cannot even now examine all the accounting officers of the departments—there are about seventy of them, and those responsible for the smaller departments are rarely called to give evidence. Thirdly, there is the question of delay. The reports of the Public Accounts Committee were published at various dates in March, June and July last year, but the full volume of evidence did not appear until November last. Since the accounts under review related largely to the fiscal year 1947–48, the process of examination, though careful and detailed, involves a considerable period of time. There was not much danger in earlier days, when the apparatus of government was simple, of locking the stable door after the horse had gone. Today, however, the field of government is forever being extended, and excesses may only come to light long after any hope of remedial action has passed. The work of supervision of departmental expenditure

is itself selective and not comprehensive, and to risk any impairment of this supervision would be a serious step.

If these points are conceded, the conclusion emerges, regretfully, that the Public Accounts Committee is not ideally constituted, at present, to undertake the critical supervision of the public boards. But the task of supervision requires many of the same qualities and resources that the Public Accounts Committee brings to its task—objectivity, a judicial appraisal of facts, and expert assistance of the kind provided by the Comptroller and Auditor-General and the Exchequer and Audit Department. On accounting, it is worth noting that the Public Accounts Committee last year gave some consideration to a proposal that the professional auditors of the accounts of public boards might be asked to lay before the Committee a detailed confidential report, covering such matters of public concern as "apparent waste or extravagance within the organization, effectiveness of methods of internal financial control, the arrangements made for stocktaking and store accounting and the reasons for variations in costs and prices." The Committee did not pursue these ideas; it was informed by the Treasury that "the suggestions were not those which at present would commend themselves to Ministers." But although Ministers seem not to have warmed to these suggestions on accounting, the work of public supervision should go well beyond a mere review of accounts. It involves, as Mr. I. J. Pitman, M.P., has recently pointed out, the supervision of internal efficiency, the supervision of the consumer's interest, and the supervision of the public's investment in each nationalized undertaking. All of this must come from outside, and it is easy to object that such supervision might have a paralysing effect on the nationalized industries, on the ground that they would be constantly looking over their shoulder to see what the supervisors were about to do. If so, the new public monopolies must be of more tender spirit than most monopolies.

There is a final argument for gathering those who would serve on a supervising body from a wider field than that from which the Public Accounts Committee is recruited. The PAC is a committee of members of the House of Commons, which assists the House in its jealously preserved right of control over public expenditure. The nationalized industries may have a connection with public expenditure and with Ministerial responsibility but this connection is not—or should not be—

of an immediate or political character. Their concern is with the public as owner and consumer, and the more they are kept apart from politics the better will it be for all concerned. There may be good arguments, therefore, for experiment with a new form of select committee of both Houses of Parliament which would devote its time to a continuing study of the affairs and trading policies of the public boards. The task requires the assistance of others besides busy politicians, for whom the business of the House of Commons is already a more than full time interest. It would be greatly assisted by the experience, wisdom and independence of the Eatanswill element in representative politics which are to be found in the House of Lords—qualities which would have an even greater appeal in a reformed House of Lords. To aid such a new committee, there would need to be expert assistance on accounting, finance and commercial policy, which could be built up from a nucleus provided by the Exchequer and Audit Department, and could serve under an officer with similar skill and independence as those of the Comptroller and Auditor-General. Given an independent committee of this kind, charged with making a regular efficiency audit of the nationalized industries, the need for consumers' consultative councils would largely disappear, since their work on the broad questions of commercial policy (as distinct from day-to-day complaints) could be more effectively handled by a committee equipped with business experience, assisted by expert investigators and armed with that most searching means of defending the public interest—the right to examine witnesses.

This is no more than a preliminary outline of a proposal which would require much close examination in detail before it could be implemented. It may not find favour among those who confuse their own brand of politics with the public interest. But since it is already clear that far-reaching steps will ultimately have to be taken to secure some form of regular arbitrament of the work of the public boards, it is not too soon to make a beginning. It is at least encouraging that this question, so largely overlooked when nationalization began, is rapidly coming into the forefront of informed discussion. What is now needed is a wider appreciation on the part of the public of the steps which need to be taken in their own interest.

ROLAND BIRD.

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Return to Credit Control in France

By Paul Bareau

A STUDY of recent French economic policy and a review of its achievements is in effect an enquiry into the rebirth of economic freedom. For that reason alone it holds exceptional interest at this particular juncture of European affairs, at this moment of clash between the concepts of the alleged order and security of planning and the more dynamic, if also more dangerous, quality of freedom. There can be no doubt about the economic liberal revival which has swept over a considerable part of Europe during the past year. It has involved not only France but Italy and Western Germany. Switzerland and Belgium are well in the liberal swing—but they have never been out of it. Beyond the confines of these countries its impact has also been unmistakable. That revival has been marked by a transition from the physical controls on prices, consumption and construction which were inherited from the war years and had inevitably to be extended to the immediate post-war period. The operation of the price mechanism has been gradually substituted for these controls.

A very important segment of that mechanism is that which relates to the price of capital and credit. In no country of Europe has there been a more conscious attempt to control the economy through the appropriate manipulation of credit and of the rate of interest than in France. This return to the use of the rate of interest is a chapter in the recent economic history of France which deserves the closest study. Especially does it merit such attention here in Britain, where quite other ideas on the use of credit control have prevailed but where, even so, we should not be averse from studying, and maybe learning from, the experience of others.

To focus this return to the orthodox use of the rate of interest in correct perspective it is necessary to step back somewhat and view the situation in France as it was on the morrow of liberation. The economic position at that time was characterized by an abundance of means of payments and a corresponding scarcity of goods. The immense inflationary potential that had been built up during the occupation and kept repressed by rigorously enforced controls of prices and wages suddenly found freedom to express itself. Taking 1938 as 100, the note circulation in September, 1944, was 613, and the volume

of bank deposits 405. At the same time the index of wholesale prices, again on the same 1938 basis, was 267 and that of retail prices 290. These figures eloquently describe the pressure within the boiler.

At that time this inflationary potential, and the dangerous freedom of self-expression which it suddenly discovered with the removal of the controls maintained during the occupation, could not be contained by the orthodox weapons of credit restriction. The primary need of the French economy at that time was to restore production, to repair the damage to communications and the other essential elements in the economic life of the nation, to make up some of the leeway in renovation and expansion of industry which had been lost not merely during the occupation but in the preceding years of monetary instability and economic neglect.

In that immediate post-liberation period there was certainly need for measures to ensure monetary rehabilitation. But this task should have been entrusted to more vigorous and trenchant instruments than the orthodox weapons of credit control. The inflationary potential should have been suppressed or neutralized by a monetary purge similar in character to that applied in Belgium and the Netherlands soon after their liberation. Nothing of the kind was done. A 3 per cent. liberation loan was issued towards the end of 1944 and yielded Fr. 164 milliards,[1] of which Fr. 128 milliards were paid in cash.

This was intended to be a great funding and deflationary operation to collect and immobilize a large part of the available purchasing power which at that time had not yet been allowed to reflect itself in the level of prices and wages. In this objective, however, the operation was undermined by the fact that the Government was still running a budget deficit considerably greater than the gross proceeds of the loan. The excess of Government expenditure was Fr. 286 milliards in 1944 and Fr. 207 milliards in 1945. In fact, therefore, the proceeds of the loan did no more than fill a part of those deficits and the operation must, in retrospect, be regarded much more as the provision of current revenue for the Government than as a great deflationary measure.

In 1945, the French Government proceeded to an exchange of Bank of France notes. This, however, was never intended to be a monetary purge. None of the notes so exchanged were

[1] The current rate of exchange is Fr. 980 to the £. As a guide to approximate relative values Fr. 10 milliards may be taken as the equivalent of £10 millions.

confiscated or blocked. It is true that a substantial volume of notes—those which had been acquired in suspicious circumstances—was not offered for exchange and was thus permanently withdrawn from circulation. But this was a purely accidental consequence of the note conversion and in any case was not to be regarded as a potent deflationary factor since most of the notes that failed to present themselves for conversion had already been lost, destroyed or otherwise withdrawn from the normal monetary circulation.

POST-WAR INFLATION

The suppressed inflationary potential which France inherited from the occupation period, far from being reduced, was in fact reinforced by a number of influences. The first, and by far the most important, was the persistence of a budget deficit. The second was the inadequacy of current savings, at least in a form that would allow of their mobilization for the purpose of financing the deficit. That deficit, in consequence, had to be covered in large part by borrowing from the banking system, including the most inflationary of all forms of such borrowing, namely direct recourse to the Bank of France. A third inflationary development was the launching of the over-ambitious *Plan de Modernisation et d'Equipement*—the Monnet Plan—which, admirable as were its objectives, over-taxed the available resources of the French economy. Finally, among the tally of inflationary influences, was the readiness with which the French authorities conceded substantial and general wage increases, namely by 50 per cent. in August, 1944, 40 per cent. in March, 1945, 30 per cent. in June, 1946, 60 per cent. in the course of 1947, and another 15 per cent. in 1948. After heaping this Pelion on Ossa it is hardly surprising that the inflationary potential should have taken wing, as the following figures of the monetary circulation, wages and prices very clearly show :

	Milliard francs			1937 = 100		
	Currency	Bank Deposits	Total Money Supply	Wholesale Prices	Retail Prices	Wages
Av. 1945	570	429	999	421	436	513
„ 1946	722	607	1,329	728	746	814
„ 1947	921	740	1,661	1,110	1,210	1,140
„ 1948	988	1,175	2,163	1,920	1,920	1,810
Sep. 1949	1,211	1,286	2,497	2,200	2,150	1,800

In the circumstances which prevailed until about a year and a half ago little attempt was made by the authorities to apply the brake of severe credit restriction to this inflationary progress. Credit policy had to be subordinated to the exigent needs of the State and also to the very understandable desire of the authorities to place as few obstacles as possible in the way of industrial reconstruction and commercial expansion. By early 1948 the position was beginning to lend itself more readily to the application of the orthodox weapons of monetary control. Industrial production had recovered beyond the 1938 level. The pipelines in the distributive system were beginning to fill up again and retail shops once more began to show full shelves. This opened the door to a gradual dismantling of rationing. After the disastrous harvest of 1947, the year 1948 was to make full amendments and the excellent performance of French agriculture was repeated in 1949. By 1948, also, there was definite assurance of substantial United States help for the European Recovery Programme, and France, both as direct recipient of Marshall aid and as indirect beneficiary through drawing rights established under the Intra-European Payments Agreement, was to be the largest recipient of that help in Europe.

Finally, the Government's finances, though by no means in the ship-shape order which the fiscal purist would regard as equilibrium, appeared to have improved to the point at which the State finances were no longer a chronic and substantial source of inflation. In those circumstances, and in answer to the general movement towards economic liberalism and freedom which was then well under way, the decision was taken by the responsible authorities represented in the *Conseil National du Crédit* to apply to the situation the full panoply of credit control.

The Reforms of September, 1948

In this credit policy of the French authorities four definite strands are discernible. The first was a hardening of interest rates. The second was the establishment of new and rigid ceilings for re-discounts by the commercial banks with the Bank of France. The third was the application of very stringent qualitative tests to the paper accepted for re-discount at the Bank of France. The fourth was the pooling of credit information by all the banks so as to ensure that no client, by banking with more than one institution, overstepped the limits of that

amount of credit to which he was entitled. Some of these measures had already been applied, though tentatively and with lack of severity, in 1947. In particular, the banks had in that year been called upon to notify all demands for credit beyond a certain figure to the *Service Central des Risques.* In addition, it had been laid down in that year that all credits of Fr. 30 millions and over had to receive the authorization of the Bank of France. Early in 1948, however, there had been some relaxation in these regulations. For example, the Bank of France's authorization was only required for credits of Fr. 50 millions and over, and new advances of between Fr. 30 and Fr. 50 millions had to be notified to the central bank only after they had been made by the commercial banks.

It was in September, 1948, that the *Conseil National du Crédit* introduced new measures defining a new credit policy of which the main objective was to provide for a strict quantitative limitation on the volume of credit that could be extended by the banks. In the first place, the banks were forbidden to increase their loans by transferring to this use resources which had previously been employed in the purchase or discount of Government paper. The banks were called upon to maintain in Treasury Bills and Government securities an amount equal to at least 95 per cent. of the total of such assets held on 30th September, 1948. Secondly, the banks were required to invest in Government paper at least one-fifth of any increase in their resources over and above the figure held on 30th September, leaving four-fifths for other uses, including cash and loans to industry. Thirdly, the Bank of France announced new totals for re-discounts for each commercial bank and thus set a definite limit to the help which these institutions could obtain from the central bank. The new ceiling of re-discount facilities amounted to Fr. 188 milliards. The banks were also instructed to limit their loans to genuine commercial, self-liquidating operations.

This combination of new qualitative and quantitative restrictions on credit reacted quickly on the rate of interest. That rate had already been inclined to harden since the beginning of 1947 but the movement gathered momentum after September, 1948. The rate on short-term Government paper, which had been pegged at $1\frac{3}{4}$ per cent. in 1945 and 1946, had risen to an average of $2\frac{1}{8}$ per cent. in 1947, and rose to an average of $2\frac{1}{2}$ per cent. in 1948. The yield on longer-term Government

securities, which was slightly under 3 per cent. in 1945, rose to 3·17 per cent. in 1946, 3·91 per cent. in 1947, 4·62 per cent. in 1948, and during 1949 it crossed the 5 per cent. line.

It is not, however, in these published and official rates that the real pinch of the interest shoe is to be found. A much more sensitive spot is the price charged by the big commercial banks for accommodation to their industrial customers. This is a particularly crucial sector of the interest rate structure, because the state of the long-term capital market virtually prohibits normal long-term financing by commercial and industrial enterprises through the issue of fixed-interest-bearing securities, and much financing which should be shouldered by the open market has perforce to be done by the banking system. Confidence in the currency has not yet reached the point at which such borrowing can be secured at reasonable rates. The current yield of about 5 per cent. on Government bonds is in many respects an artificial rate, reflecting not free investment by the public but official and semi-compulsory investment by banks, the nationalized insurance companies and, above all, by such official institutions as the *Caisse des Dépôts et de Consignations*. The commercial banks now charge rates varying from 7 to 9 per cent. for loans to their industrial customers. They do so, driven by no official compulsion other than the severe limitations which the authorities have placed on the total volume of available credit. The banks have been enjoined by the *Conseil National du Crédit* to restrict their loans to genuine commercial and self-liquidating operations. In particular, they have been instructed to avoid all loans used for the accumulation of abnormal inventories, the hoarding of goods, that is, operations by which bank credit is in fact placed at the disposal of merchants and industrialists to "bear" the franc and give expression to their lack of confidence in the currency, to their belief in a rise in the general level of commodity prices. For the rest, the rate of interest finds its own market price, given the state of supply and demand.

It might be assumed that the big French deposit banks, which are now nationalized, would act in close collusion to standardize their charges for credit. Nothing, however, could be further from the truth. It is one of the interesting paradoxes of the nationalized sector of the French economy that never has inter-bank competition been as keen as since all the banks came to belong to the same owner. The structure and manage-

ment of these institutions existing at the time of nationalization have been left virtually untouched and nothing has been lost of the fine edge of competition in which they contend for business. In so far as they co-operate it is through their common representation on the *Conseil National du Crédit*, and indirectly through the compulsion which is placed on them to report their commitments beyond a certain figure to the official central pool of information which exists for that purpose.

The Budget

Before judging the results of this use of the credit mechanism on the French economy it will be desirable to cast a rapid glance at other aspects of the monetary situation. In France, the impact of the public finances can never be safely ignored, and more than ever is this true today. As the table overleaf shows, the history of budget deficits in France is long to the point of monotony. Since 1914 there have been only four years, those which followed the Poincaré reforms of 1925, in which the French budget has been able to boast of a surplus. The inevitable corollary of that persistent deficit financing is to be found in the equally persistent and chronic tendency for the franc to lose value, both in its domestic purchasing power and in its external exchange values. During the past year the position has shown some improvement and, though the deficit ultimately to be shown for the year 1949 will be well in excess of the Fr. 4 milliards which the estimates envisaged, it can be claimed by the French authorities that in 1949 the national finances ceased to be a powerful undermining factor in the monetary situation.

But what of 1950? At the time of writing, in the early days of January, the fate of the 1950 budget—and with it that of the French Government—is still in the balance. M. Bidault has scraped through several votes of confidence, some by the narrowest of majorities, to push the budget through the National Assembly. The Council of the Republic, however, still has to make its voice heard. Meanwhile, the funds required to carry on the Administration have been provided by the customary vote on account, the *douzième provisoire*. Present indications are that the 1950 budget will amount to Fr. 2,275 milliards, exceeding the 1949 figure by Fr. 400 milliards. Of this total, Fr. 1,535 milliards are in respect of current expenditure. The balance of Fr. 740 milliards is " below the line "

GOVERNMENT EXPENDITURE AND REVENUE 1913-1949

In milliards of francs.

Year	Total Expenditure	Total Revenue	Surplus (+) or Deficit (–)
1913	5·1	5·1	+ 0·025
1914	10·1	4·6	– 5·5
1915	20·9	4·1	– 16·8
1916	28·1	5·2	– 22·9
1917	35·3	6·9	– 28·4
1918	41·9	7·6	– 34·3
1919	40·0	13·3	– 26·7
1920	29·5	22·5	– 7·0
1921	29·9	23·1	– 6·8
1922	31·1	23·9	– 7·2
1923	31·9	26·2	– 5·7
1924	33·9	30·6	– 3·3
1925	36·3	34·8	– 1·5
1926	42·0	43·1	+ 1·1
1927	45·4	46·1	+ 0·7
1928	44·2	48·2	+ 4·0
1929–30	58·9	64·3	+ 5·4
1930–31	55·7	50·8	– 4·9
1931–32	53·4	47·9	– 5·5
1932	40·7	36·0	– 4·7
1933	54·9	43·4	– 11·5
1934	49·9	41·1	– 8·8
1935	49·9	39·5	– 10·4
1936	55·8	38·9	– 16·9
1937	65·6	44·4	– 21·2
1938	82·3	54·6	– 27·7
1939	150·1	63·3	– 86·8
1940	284·2	72·0	– 212·2
1941	255·0	80·7	– 174·3
1942	278·7	96·5	– 182·2
1943	406·8	120·8	– 286·0
1944	408·8	123·2	– 285·6
1945	428·6	221·3	– 207·3
1946	587·7	372·6	– 215·1
1947*	940	630	– 310
1948*	1,560	1,130	– 430
1949*	1,306	1,302	– 4

* Estimated

expenditure, roughly divided in halves, one part going to repair war damage and the other to industrial expansion, including that under the Monnet Plan. An effective balance of this expenditure by revenue would call for an increase of some Fr. 150 milliards in the yield of taxation. This allows for inclusion on the receipts side of the budget of some Fr. 250

milliards of Marshall aid counterpart funds. The budget must be balanced if France is to rank for further receipts of Marshall aid. The issue is far from resolved and while it remains in suspense the possibility of further damage to the monetary situation from the disorder of the national finances continues suspended as a sword of Damocles over the franc.

Exchange Policy

In the realm of exchange policy the French authorities have applied measures which fit logically into the wider framework of the return to liberalism. During the past year the system of multiple rates has disappeared. The excuse for making this welcome and overdue reform was provided by the widespread currency devaluations of last September. Until then, the French exchange position was marred by the vestigial and anachronistic remains of the old official parity of Fr. 214.392 to the dollar. Financial transactions in dollars, Swiss francs and escudos took place entirely on the basis of a free market where, until September, the dollar stood at about 330 francs. Commercial transactions were based as to 50 per cent. on the free rate and 50 per cent. on the official rate. The cross rates for currencies such as sterling, which were not quoted in the free market, were calculated on the basis of the official parities with the dollar. This, it should be pointed out, was an improvement on the position which obtained over the greater part of 1948, during which the coexistence of a free-market rate for the dollar and a fixed rate for sterling produced dollar/sterling equivalents which differed very markedly from the official parity.

The steps taken last September by France involved the complete unification of the exchange system. The rates now quoted for all transactions, financial or commercial, are based on the so-called free market for the dollar in Paris—a market whose freedom is circumscribed by considerable intervention on the part of the authorities. All rates, though attached to this floating anchor, move together and are related by the official parities notified to the International Monetary Fund. The French have argued, and with considerable force, that it is yet too early to establish and notify a new fixed parity with the International Monetary Fund and they are delaying that step until more assurance is available on the stability of the domestic financial situation.

The regard for freedom which, for the time being, is holding France back from fixing a new parity for its currency has also been much in evidence in the initiative which France has taken to form a new bloc of inter-convertible currencies in Europe—an initiative which has not been blessed by the attempts made to christen it with such names as "Fritalux," "Benefrit" and "Finebel." The basis of the scheme is to maintain the convertibility of the currencies concerned, and the necessary balance-of-payments equilibrium between its member countries, by allowing their mutual rates of exchange to fluctuate, though retaining a link between them and the dollar and all other currencies attached to a fixed dollar parity. The countries involved in this proposed grouping are, in fact, those where the economic liberal revival in Europe has been most in evidence and if the grouping in fact takes place it will give that movement an embodiment which it still lacks today.

The only rates of exchange for the franc which differ from this unified structure of commercial rates are those quoted for foreign bank-notes. In France, given the importance of the tourist industry, this is a highly important market. There was a period in 1948 when the rate for dollar notes in France rose to about 500 francs to the dollar and when the free rate was about 320 francs. The result of this differential was that the French authorities received only a modest fraction of the tourist earnings which were pouring into France. The proceeds were sold in the euphemistically-called "parallel market" and ultimately found their way into hoards or other non-official receptacles. The effect on the French balance of payments was considerable. At the present moment the free rate for the dollar in Paris is around 350 francs and the rate for dollar notes in the Paris market is 390 francs—a margin too small to divert tourist remittances from the official exchange channels.

In these circumstances there is no inducement for the tourist to obtain his francs through other than official channels. This disappearance of a substantial premium on dollar notes is among the more impressive symbols of the improved monetary situation. It is a development for which credit restriction can take some of the merit. The difficulty in obtaining accommodation from the banks and the general tightening of the credit situation has undoubtedly forced a number of individuals and enterprises to put themselves in funds by liquidating some of the hoards of notes, and even of gold, which had been

accumulated when conditions were more uncertain and threatening than they are today.

Reactions to Politics

The return to normal methods of monetary control must also be judged in the context of the political situation. Over the greater part of 1949 France had the unwonted luxury of an unchanged, though always precariously poised, Government. The administration of M. Queuille came into office in September, 1948, and fell in October, 1949, only to be replaced by another and equally precariously balanced coalition of very much the same composition. The foreign observer, however, can easily exaggerate the economic importance of political instability in France. Such instability has now become endemic in the French way of life and the population has developed all the proper economic reflexes to it. Some of them would be highly undesirable and damaging in a *régime* which was politically less volatile; but in the prevailing political atmosphere those instinctive reactions of the population—an unwillingness to pay taxes, a resistance to bureaucratic control, a tendency to hoard and to seek investments in real things rather than in domestic money tokens, a refusal to obey injunctions to hand in foreign investments—all these are, in the circumstances, part of the strength of France. They have helped to preserve the national wealth and, in particular, the holding of gold and foreign investments, thus safeguarding for future emergencies assets which would have been largely dissipated already if French Governments had had to deal with a population as docile and disciplined, in these respects, as that of Britain.

The Monnet Plan

No consideration of French monetary credit policy can ignore the ambitious scheme for modernization and re-equipment of French industry, which is always referred to as the Monnet Plan. This plan is, in the main, concerned with development of Government enterprises and of the nationalized industries. The *Commissariat Genéral* of the plan, however, has also set up machinery to examine, co-ordinate and even to help in the finance of private capital programmes. In 1947, the French gross national product, plus the deficit on the current balance of payments, amounted to 383 milliard French francs of 1938 purchasing power. This compared with available resources of 411 milliard francs in 1938. In the earlier year

68 milliard francs were devoted to investment, a proportion of 16½ per cent. which, in the prevailing circumstances, was certainly too low. In 1947, however, the amount devoted to investment, still expressed in 1938 francs, was 85 milliard francs, or 22 per cent. of the national product, a figure which, given the fall in the available real resources, was probably excessive and had to be so financed that fresh fuel was thereby added to the inflationary fires already burning in France. The programme of publicly-financed investment in 1949 was 794 milliard francs, of which 280 milliard francs will have been provided by the reinvestment of Marshall aid counterpart funds. Final figures are not yet available allowing a careful classification of all sources from which this substantial investment programme will have been financed. In 1947, however, total investment (in actual and not in 1938 francs) amounting to 460 milliards was financed as to about 170 milliards by borrowing from the banking system.

In 1948, the proportion of the capital programme financed by resort to bank credit was even greater, some of the estimates bringing it up to over 65 per cent. It will thus be seen that the size of the investment programme, allied to the absence of a sufficient budget surplus to take care of the investment in the public sector and to the absence of an adequately developed capital market in France, has been and continues to be an inflationary influence of unmistakable character. It will pull even more in that direction as Marshall aid tapers off and as the counterpart funds available for investment subside correspondingly.

The Balance of Payments

Looking back on the evolution and unmistakable improvement in the economic situation in France over the past year it is virtually impossible to allocate specific credit to all the influences which have been at work, including the use of the mechanism of credit control. Many of these influences, including the bountiful harvests of 1948 and 1949, would have operated anyhow. France is also beginning to gather the fruits of some of the investment, excessive though it may have been at the time, made in the immediate post-war period. The improvement in the French situation has been greatest at what was the weakest, and certainly the most crucial, point, namely the balance of payments. Expressed in dollars, the current payments of the French monetary area showed deficits

of $1,491 millions in 1945, $2,086 millions in 1946, $1,826 millions in 1947 and $1,807 millions in 1948. In the latter year the deficit was met as to $1,074 millions by credits and assistance from the United States, $325 millions by credits obtained through payments agreements and loans from other countries, $291 millions by the use of official gold and foreign exchange reserves and the balance by the voluntary private repatriation of capital.

The balance of payments in 1948, of which the details are appended, reveals the depth from which the improvement during 1949 had to begin its climb.

BALANCE OF PAYMENTS OF FRENCH FRANC AREA IN 1948

(In million U.S. Dollars)

		Credit	*Debit*	*Net*
CURRENT TRANSACTIONS				
France :	Exports and Imports	1,054	2,444	− 1,390
	Foreign travel..	97	27	+ 70
	Freight, insurance, etc.	45	318	− 273
	Investment income	148	91	+ 57
	Government	1	33	− 32
	Others	177	208	− 31
French Overseas Territories	.. .. ..	—	208	− 208
	TOTAL	1,522	3,329	− 1,807
CAPITAL TRANSACTIONS				
Private :	Long-term	114	52	+ 62
	Short-term	53	—	+ 53
Official :	U.S. Aid	754	—	+ 754
	E.R.P. drawing rights	65	1	+ 64
	Loans and credits	933	72	+ 861
	Gold	20	—	+ 20
	TOTAL	1,939	125	+ 1,814

In 1948 the current deficit was greater than the sum total of French exports, visible and invisible. In merchandise trade, France exported only 43 per cent. of what she imported. Such a degree of insolvency on current account can seldom have been matched by a great nation. The details of the balance of payments for 1949 will not be made available for some time to come. But it can already be stated that the position will show a remarkable improvement on the figures for 1948. There will still be a deficit for the year as a whole but that deficit has been gradually tapering off during the past twelve months. By the autumn, French merchandise exports were running well in excess of

80 per cent. of imports, a proportion twice as great as that maintained on the average during 1948. In addition, invisible earnings, especially those obtained from tourist traffic, have been exceptionally bountiful during the past year and, as has already been explained, the bulk of these earnings has in 1949 found its way to the central reserve instead of filtering through the quicksands of the black market, as it previously tended to do. Within this improvement in the over-all balance of payments there remains for France, as indeed for many other countries, a considerable dollar deficit. That fact explains why the improvement in the balance of payments has as yet failed to reinforce the gold reserve. The meagreness of that reserve, which is now equivalent to \$523 millions, as compared with \$2,700 millions before the War, is one of the most serious elements of weakness in the French financial situation. The reconstitution of an adequate reserve of gold and foreign currencies is one of the most urgent problems for France today.

In some directions, however, that process of rebuilding external reserves has made some progress. This is notably true in the payments relations between France and the sterling area. These have shown a significant transition from debtor to creditor status for France. In the twelve months to 30th June, 1949, the United Kingdom had, under the Intra-European Payments Agreement, granted drawing rights equivalent to \$200 millions to allow France to meet its anticipated deficit with the sterling area. Of this total, all but \$12 millions was utilized. This unused balance was carried forward to the year 1949–50 and, in addition, fresh drawing rights of \$108 millions were granted to France. Thus, the sterling equivalent of \$120 millions became available to France last June to cover her sterling deficit. Up to the end of 1949 these facilities had not been touched. On the contrary, France had in these six months built up sterling balances to the amount of over £30 millions. A great deal of this change in the situation was due to tourist expenditure. France, in 1949, with its freedom, abundance and zest for good living, proved a powerful magnet for the austerity-ridden British visitors. Even so, the recovery in the French balance of payments with sterling countries, which has been matched in the relations with hard-currency Belgium, has proved a remarkable achievement—all the more remarkable in that the phase of greatest improvement occurred while France was in fact without a Government, *i.e.* in

the lengthy interregnum between the administrations of M. Queuille and M. Bidault.

Rise in Production

In diverting more resources to the export market the policy of credit restriction has played its part. Domestic purchasing power has been held in check and French manufacturers have, therefore, devoted more efforts and ingenuity to the development of their export trade. This diversion, however, was also facilitated by the increased volume of production. The abundant harvest of 1948 was a veritable godsend to France and, despite near-drought conditions, 1949 also proved an extraordinarily satisfactory year for French agriculture. Industrial production, which averaged 109 of the 1938 figure during 1948, rose to 131 in the summer of 1949 and has since been hovering around 120. The improvement on the previous year's figures has been remarkable and represents a striking increase in productivity per man. In this context it should be realized that the French worker now works an average week of 45 hours, as compared with the average of 38 hours established after the Blum "reforms" and the 40-hour-week campaign of the late 1930's. In weighing up the current indices of industrial production it should, however, be realized that comparisons with 1938 are comparisons with a very poor year. On the 1938 basis, industrial production in 1929 stood at 133, a higher figure than has yet been recorded in France since the end of the War. French production, therefore, had far greater leeway to make up than that in most other European countries, and recent achievements in raising productivity and lengthening the working week have, up to now, done little more than repay the debts and fill the shortcomings that occurred in the immediate pre-war years.

Conclusion

This review of the French economic position suggests that, in the context of a relatively free economy, the restriction of credit and dearness of money have played a valiant and beneficial role in containing the monetary supply, determining with impersonal efficiency a reasonable order of priorities among would-be users of credit, and inducing borrowers to speed production, increase efficiency and provide all the customary reactions to the spur of hard money. If the resort

to the traditional instrument of monetary control has failed to achieve more it is because many forces have been pulling against it.

First, there is little sign as yet of a reduction in the ranks of the bloated, rigid, and relatively inefficient French bureaucracy, in answer to the return of a free economy. One of the advantages of using the rate of interest is that it will do the work of thousands of officials who, in default of that instrument, have to decide upon priorities, rationing and other forms of physical economic control. In France, however, the officials have tended to remain even though the work which many of them do has lost much of its justification.

The greatest handicap against which credit control has had to contend is, however, the continued lack of stability in the national finances. This lack of stability breeds suspicion of the currency. Without confidence in the franc a large part of the country's savings runs to earth—in more ways than one. There is no feasible rate of interest which can fight successfully against distrust in the currency and bring out savings in the form in which they should be available to finance the beneficial, though ambitious, capital programme of the Government. Until that trust returns, the capital market in France is bound to be starved of an adequate supply of mobilizable savings and the finance of the country's re-equipment plan must, in large measure, be dependent on resort to banking credit. This, in turn, will tend to create further inflation and thus complete the vicious circle of perpetuating distrust in the currency.

But, given the circumstances, and making due allowances for the difficulties in which they have been operating, the policy of the French monetary authorities has achieved wonders and must be awarded much of the credit for the remarkable economic recovery in France during the past year. The extent and speed of this recovery are another reminder of the fundamental strength and economic equilibrium of France. A country which is so blessed with natural resources and fertility can allow itself to make many more mistakes than the permissible quota of more specialized and delicately poised economies. What could not France achieve if only all its virtues and advantages could flourish in an atmosphere of monetary confidence and stability?

PAUL BAREAU.

January, 1950.

Statistics: Explanatory Notes

Balance of Payments.—In the first half of 1949 the deficit with the dollar area totalled £135 millions, an increase of £20 millions on the preceding six months. Taking into account the surplus with other countries, principally the sterling area and Marshall aid countries, the over-all deficit for the half-year amounted to £10 millions. For the year as a whole the Chancellor has provisionally estimated the over-all deficit at about £110 millions. If so, the deficit for the six months July to December totalled some £100 millions—an annual rate of £200 millions, compared with an over-all *surplus* of £35 millions in the preceding twelve months.

U.S.A.—The first chart on page 43 depicts the means of financing U.S. exports of goods and services over the last five years. During 1945 the total dollars made available to the rest of the world through U.S. imports, official aid and other capital movements in fact exceeded foreign countries' purchases of U.S. goods and services, with the result that their gold and dollar holdings showed a corresponding increase. In spite of Marshall aid and other special assistance, however, other countries have since had to draw on their exchange reserves in order to pay the United States. As a proportion of national income United States imports have been gradually rising since the end of the War and by 1948 had regained the pre-war level of 4·6 per cent.

Government Expenditure.—Since the end of the War there have been significant changes in the distribution of Government expenditure compared with the pre-war position. In the financial year 1948/9 national debt service accounted for only 13 per cent. of total Government spending, in contrast to a pre-war average of 23 per cent., whilst expenditure on "welfare" had risen from 29 to nearly 38 per cent. of the total—and will probably show a further increase in the current financial year.

In 1948 the revenue of all public authorities was equal to almost 40 per cent. of total private income—on an average, that is, eight shillings in every pound of private income was absorbed by central or local Government taxation of one kind or another. From the bottom right-hand chart on page 44 it will be seen that, in the financial year 1948/9, receipts from taxation alone more than covered the total net expenditure of the central Government, revenue from other sources, such as the sale of surplus war stores, accounting for the over-all surplus of £352 millions. In the current financial year, according to the estimates, taxation should cover about 96 per cent. of net expenditure.

National Savings.—Net savings (receipts less repayments) reached a peak of £639 millions in 1943/4 but fell sharply with the end of hostilities—the result of increased repayments and withdrawals rather than of a fall in gross receipts. In the financial year ending in March, 1949, repayments—including Defence Bonds paid off at maturity—exceeded receipts by £15 millions. Excluding this item for Defence Bonds, however, net savings amounted to £37 millions, compared with a pre-war average of about £33 millions. In the first six months of the current financial year repayments exceeded receipts by £44 millions, whereas in the comparable period in 1948/9 "dis-saving" amounted to £57 millions—an "improvement," however, due almost entirely to the virtual disappearance of maturing Defence Bonds.

Unemployment.—Unemployment reached its all-time peak in January, 1933, when nearly 3 million workers, or 23 per cent. of the insured working population, were without jobs. Except for a temporary setback in 1938, unemployment thereafter fell continuously until the outbreak of the War and virtually disappeared during the war years.

In October last, unemployment in Great Britain was no higher than 1·4 per cent. of total civilian employment, a figure typical of the abnormally low levels

ruling for the past three years as the result, basically, of the absence of any change in the distribution of manpower between industries. In the fuel crisis of February, 1947, registered unemployment totalled over 1·9 millions, a further half million workers were stood off but not registered, and there were probably about 150,000 former servicemen not yet absorbed into employment.

Wages and Hours.—By April of last year weekly earnings in industry had risen, on an average, by about one and a quarter times since October, 1938. The average working week, however, was about an hour less than before the War—in the U.S.A., in contrast, there had been an increase of some three hours per week compared with 1938.

Personal Income.—The chart brings out the increased share of wages in total personal income, as contrasted with the decline in the share both of salaries and of the "profits, interest and rent" group. Since direct taxation takes a heavier toll of the latter group, the share of wages in total "spendable" income has risen even more sharply. In 1948, wages (including the pay of the Armed Forces) accounted for 51 per cent. of total personal incomes after direct taxation, against 41 per cent. in 1938, while between these two years the share of the "profits, interest and rent" group declined from 34 per cent. to 28 per cent.

Personal Expenditure.—Between 1938 and the beginning of 1946 the percentage of total expenditure on the other main groups declined, while that on drink, tobacco and entertainment had almost doubled, from 12 per cent. to 23 per cent. Over the past four years the proportion of expenditure taken by rent and rates has continued to decline. The proportion taken by food, which was roughly stable until the middle of 1949, shot up in the third quarter to the pre-war level of over 30 per cent.; and with greater expenditure both on clothing and on household goods the share taken by drink, tobacco and entertainment has fallen back to about 20 per cent.

Gold.—Gold production, though showing a slight recovery since 1945, was in 1948 still 38 per cent. below the 1940 peak, due to the reduction in profit margins through rising costs. As will be seen from the chart, however, South Africa produces more than half the total world output and production should be stimulated by the 44 per cent. rise in the sterling price of gold following devaluation (second chart). The United States' share of the total world monetary gold stock has risen from 55 per cent. in 1938 to almost three-quarters of the total, whereas our own exchange reserves are substantially below the pre-war level. Even allowing for the reflux since devaluation, they amounted at the end of 1949 to $1,688 millions, against the 1938 peak of over $4,000 millions; the general price level having about doubled in the meantime, the reserves in terms of effective purchasing power are only about one-fifth or one-sixth of the best pre-war figures.

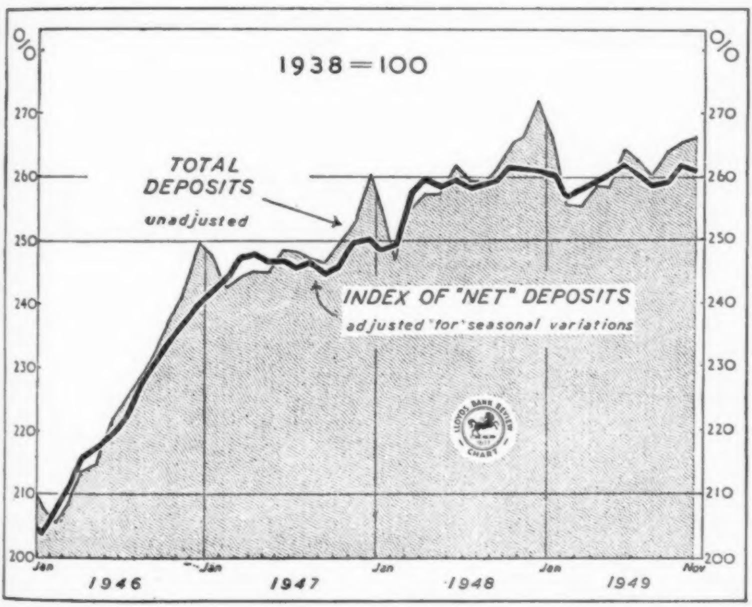
Merchant Shipping.—It will be seen from the first chart on page 51 that there has been relatively little change since before the First World War in the merchant tonnage owned by the U.K. The U.K. share of the world total, however, declined from nearly 40 per cent. in 1913 to 22 per cent. in 1948. The U.S.A., in contrast, as the result of the enormous expansion in shipbuilding during the War, possessed 37 per cent. of the total in 1948, against less than 12 per cent. in 1913.

Commodity Prices.—From the first chart on page 52 it will be seen that, until devaluation, U.K. export prices measured in dollars were gradually rising, whereas U.S. export prices had been falling since early in 1948. It is noteworthy that, without any adjustment in the exchange rate, Belgian export prices in terms of dollars were reduced by some 25 per cent. in the twelve months to November, 1948, but have since risen again. As a result of devaluation, British export prices, in terms of dollars, declined from 209 per cent. to 144 per cent. of the 1938 level; the equivalent movement in the case of France, on the basis of the new "free" rate, was from 246 to 193.

Movements in the prices of the chief primary commodities are summarized in the remaining charts on pages 52 and 53. Devaluation stimulated a sharp rise in the sterling prices of most of these commodities but in some cases there has been a subsequent recession ; tin, in particular, had fallen to £600 a ton at the end of the year against £750 at the end of September. Rubber, in contrast, has continued to rise, from less than 1/- a pound in mid-September to 1s. 3d. at the end of the year.

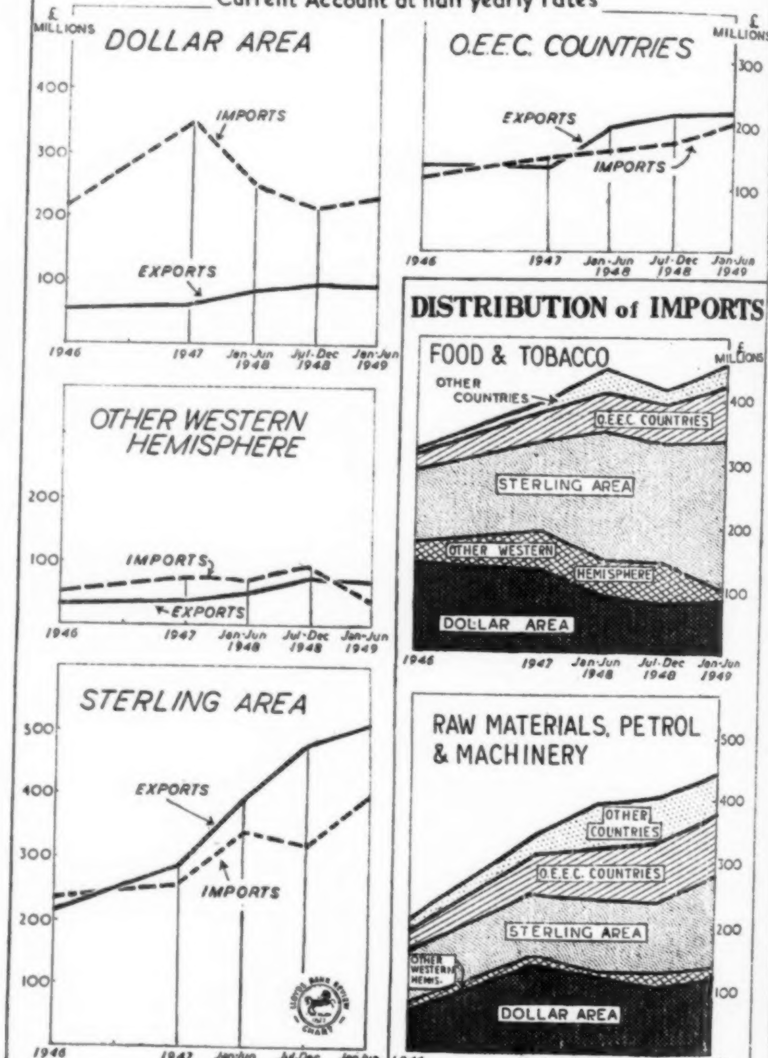
The Commonwealth.—In 1948, over 28 per cent. of world exports were accounted for by the Commonwealth, compared with 25·6 per cent. in 1938. Excluding Canada and Newfoundland, the share of the rest of the Commonwealth (practically equivalent to the sterling area) was equal to that of the U.S.A. Among the Commonwealth countries, the greatest advance in trade, and production, has been made by Canada, both exports and production having risen by about three-quarters of the 1938 volume.

Index of Deposits.—Our index of bank deposits, adjusted for seasonal variations, has hitherto been based on total clearing bank deposits as published each month. On a few occasions, however, the movement of the index has been distorted by exceptional changes in " balances with other banks and cheques in course of collection." In future, therefore, the index will be based on " net " deposits, i.e., total deposits *less* " cheques and balances." From the chart below it will be seen that, after account has been taken of seasonal factors, net deposits have remained relatively stable since the spring of 1948.



U.K. BALANCE OF PAYMENTS

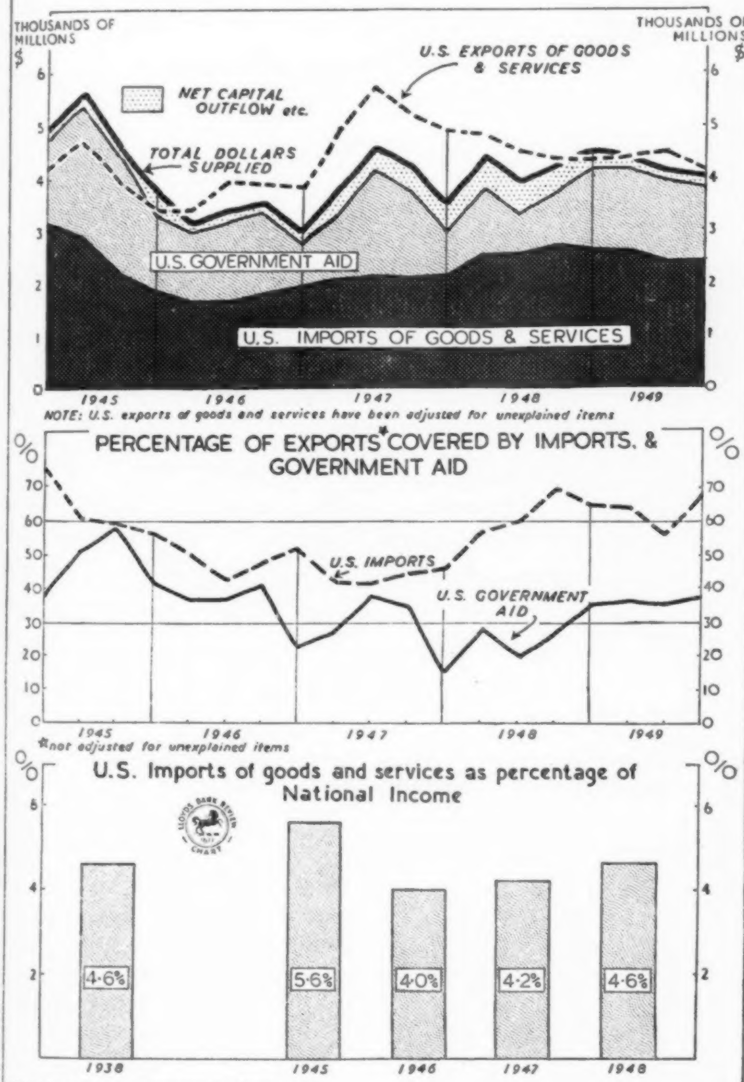
Current Account at half yearly rates



NOTE: Net invisible receipts have been added to exports, net invisible payments to imports. 1946 & 1947 figures on half yearly basis.

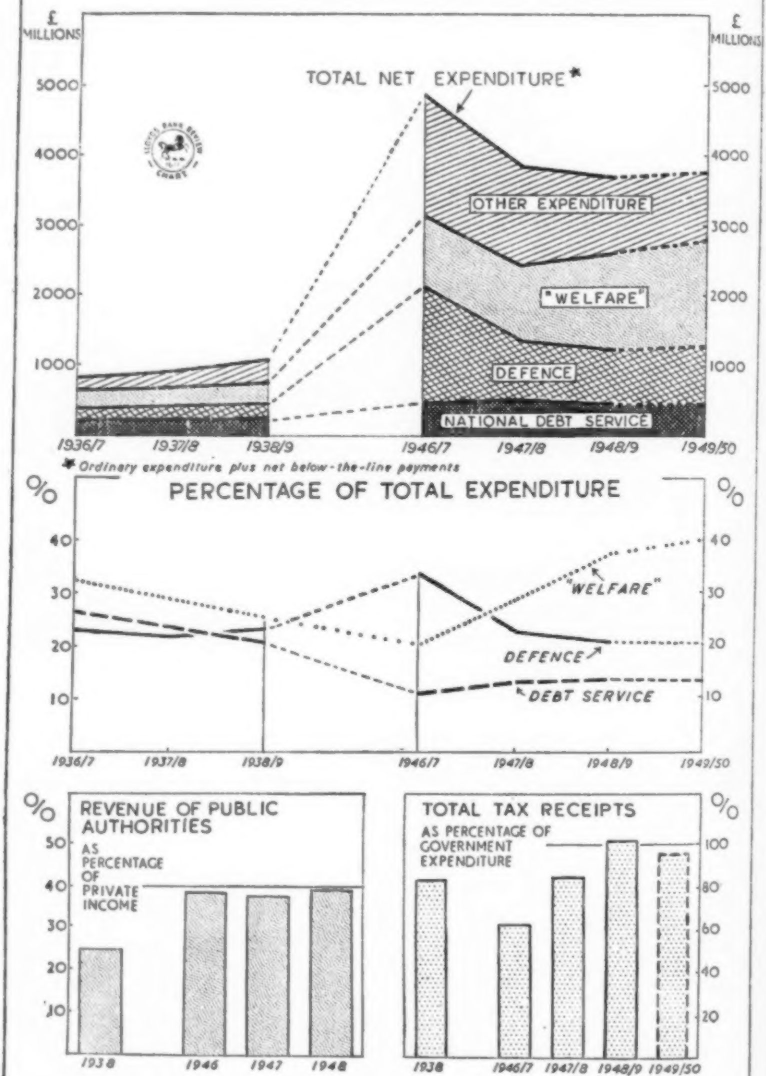
SOURCE : Balance of Payments White Paper Cmd.7793.

U. S. A: FINANCE OF EXPORTS

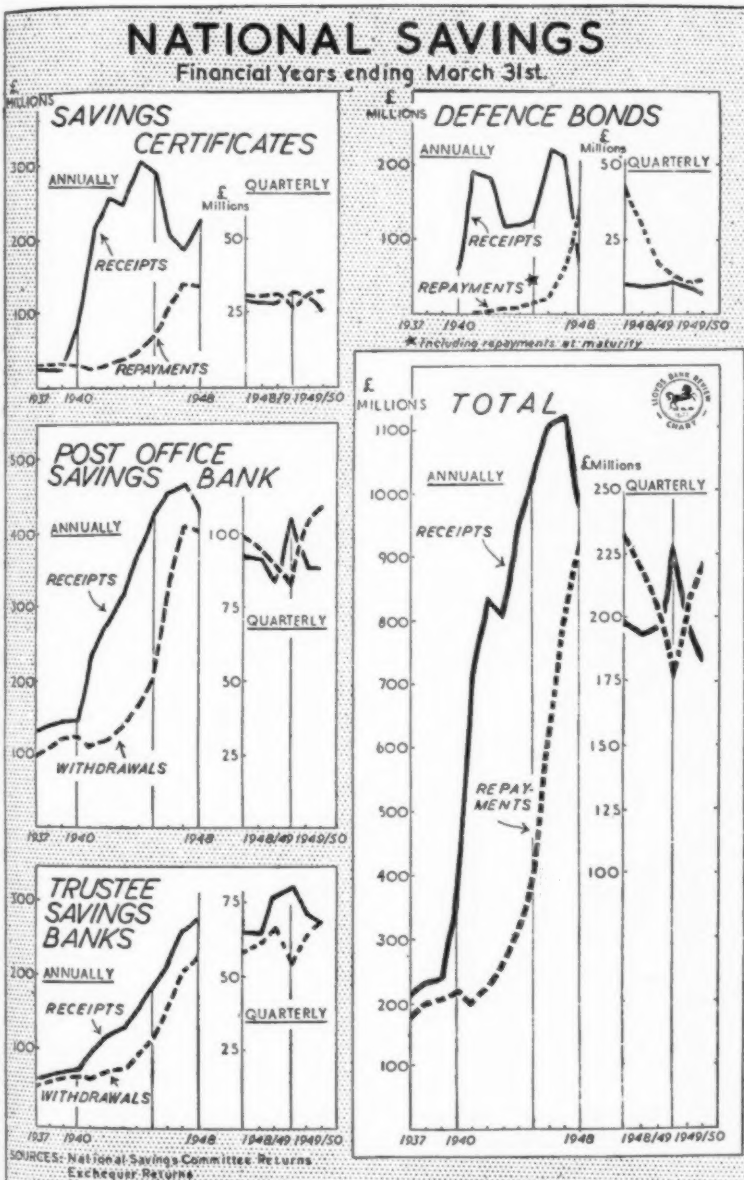


SOURCE: Survey of Current Business

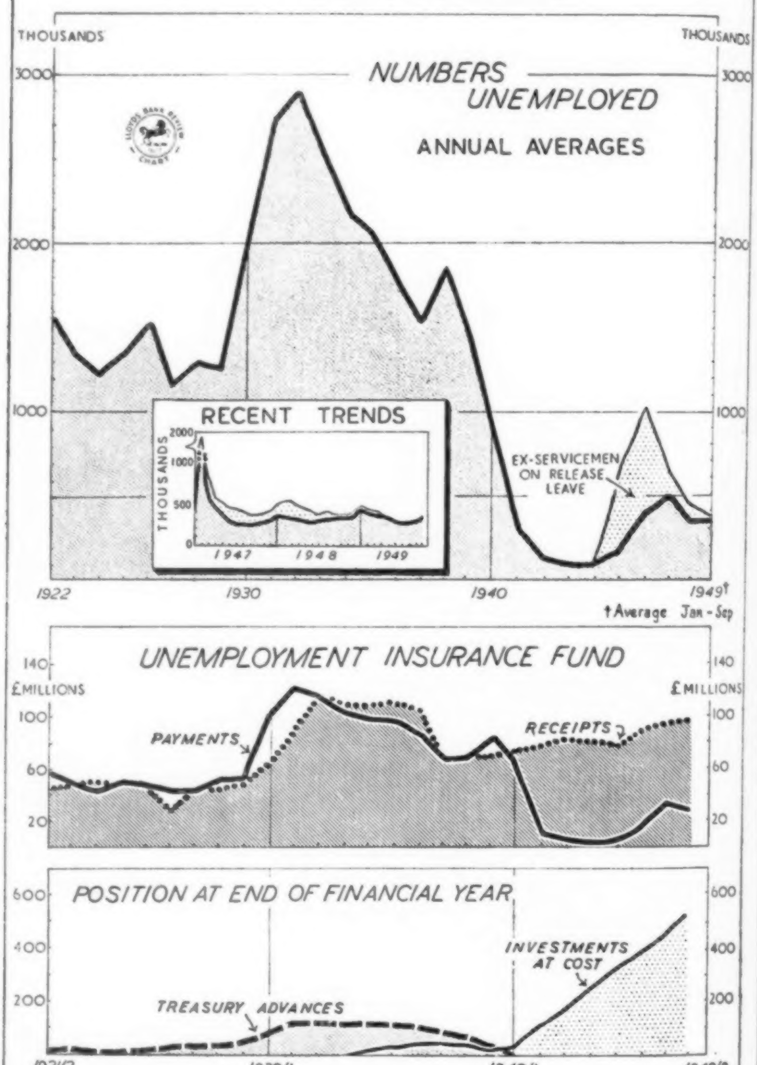
GOVERNMENT EXPENDITURE



SOURCES: Financial Statements, National Income White Papers

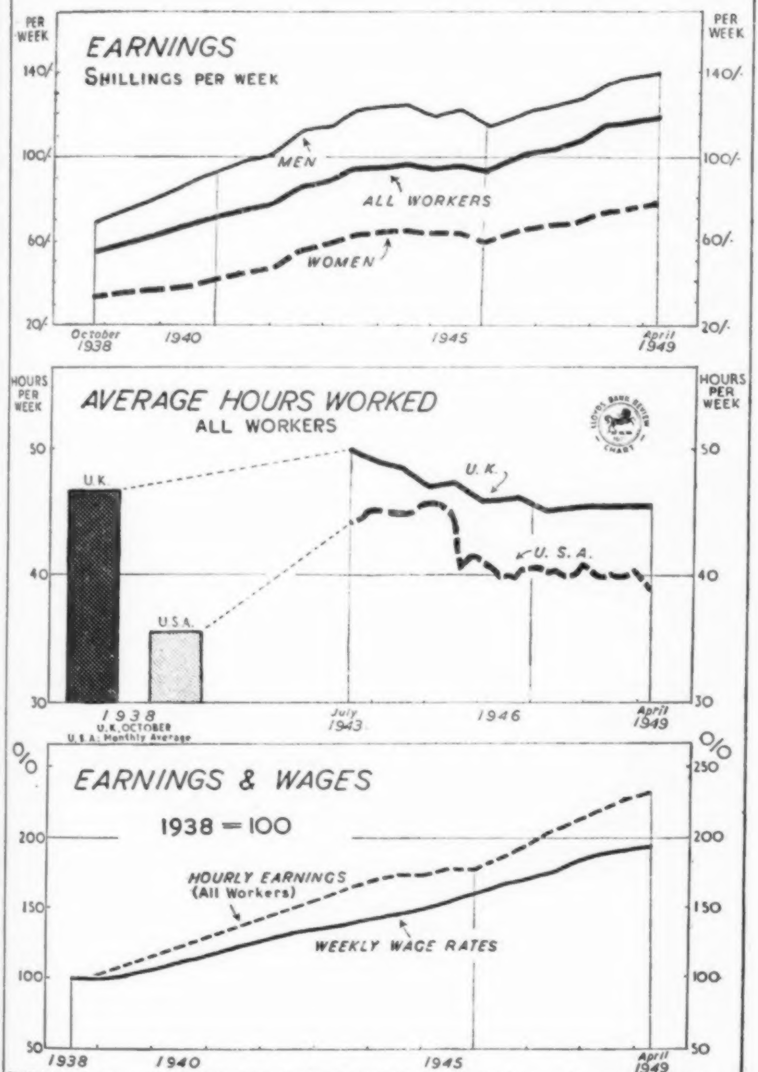

NATIONAL SAVINGS
Financial Years ending March 31st.
SAVINGS CERTIFICATES
£ MILLIONS
ANNUALLY
RECEIPTS
REPAYMENTS
QUARTERLY
£ Millions
1937 1940 1948 1948/9 1949/50
DEFENCE BONDS
£ MILLIONS
ANNUALLY
RECEIPTS
REPAYMENTS*
QUARTERLY
£ Millions
1937 1940 1948 1948/49 1949/50
* Including repayments at maturity
POST OFFICE SAVINGS BANK
ANNUALLY
RECEIPTS
WITHDRAWALS
QUARTERLY
1937 1940 1948 1948/49 1949/50
TRUSTEE SAVINGS BANKS
ANNUALLY
RECEIPTS
WITHDRAWALS
QUARTERLY
1937 1940 1948 1948/49 1949/50
TOTAL
£ MILLIONS
ANNUALLY
RECEIPTS
REPAYMENTS
£ Millions
QUARTERLY
1937 1940 1948 1948/49 1949/50
SOURCES: National Savings Committee Returns
Exchequer Returns
Abstract of Statistics

UNEMPLOYMENT

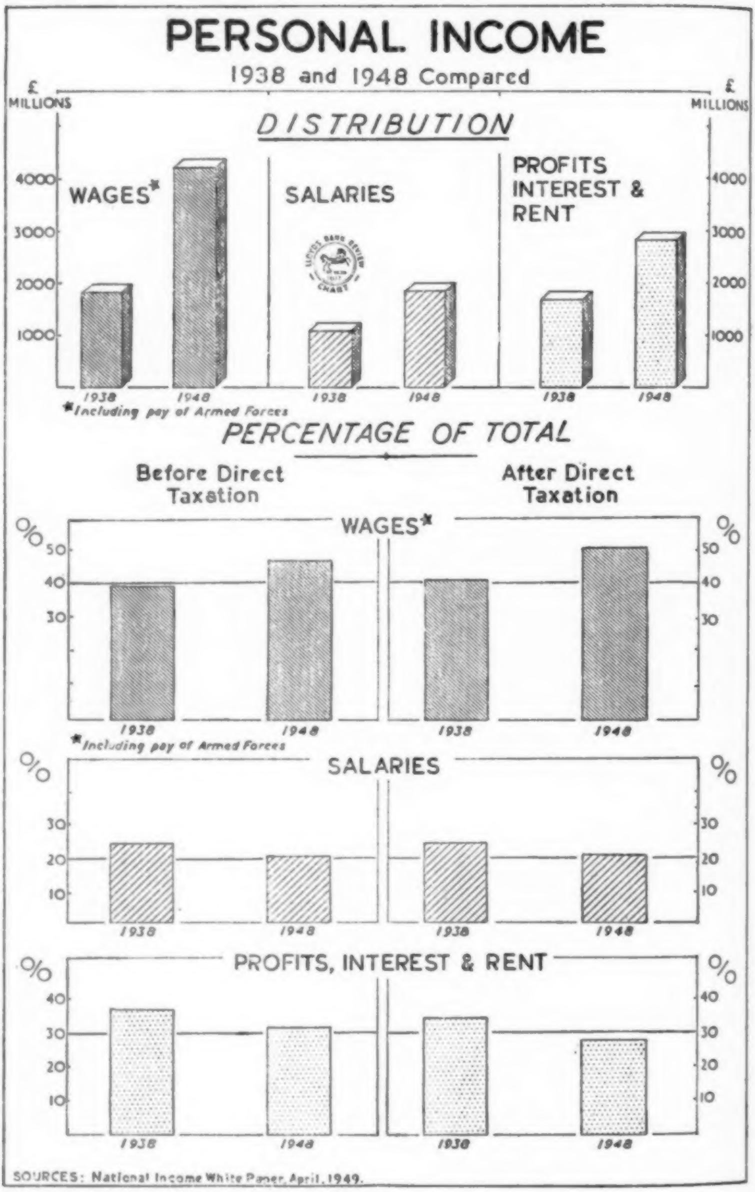


SOURCES: Ministry of Labour Gazette
Unemployment Insurance Fund returns

WAGES & HOURS

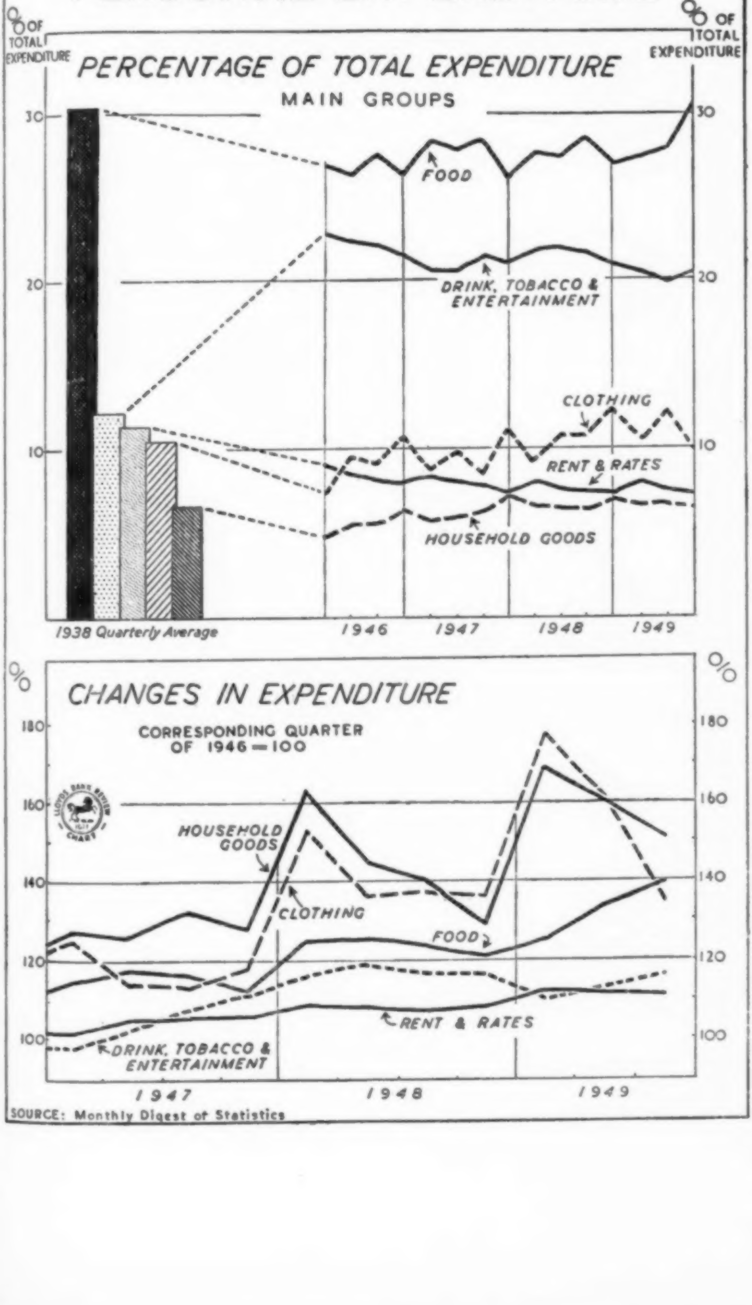


SOURCES: Ministry of Labour Gazette, London & Cambridge Economic Service, Survey of Current Business



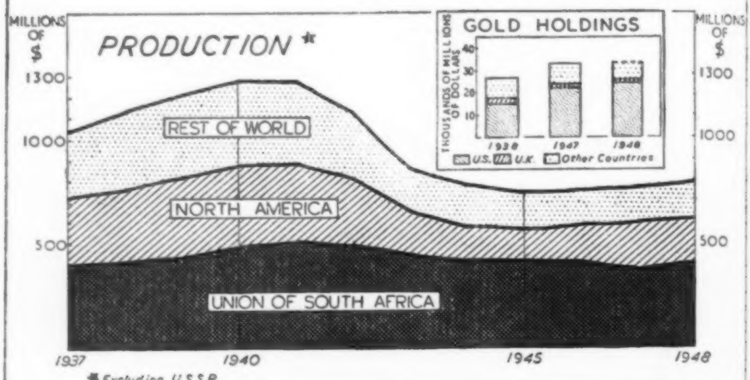
PERSONAL INCOME
1938 and 1948 Compared
£ MILLIONS
DISTRIBUTION
WAGES*
SALARIES
PROFITS INTEREST & RENT
4000
3000
2000
1000
1938
1948
*Including pay of Armed Forces
PERCENTAGE OF TOTAL
Before Direct Taxation
After Direct Taxation
WAGES*
%
50
40
30
*Including pay of Armed Forces
SALARIES
20
10
PROFITS, INTEREST & RENT
SOURCES: National Income White Paper, April, 1949.

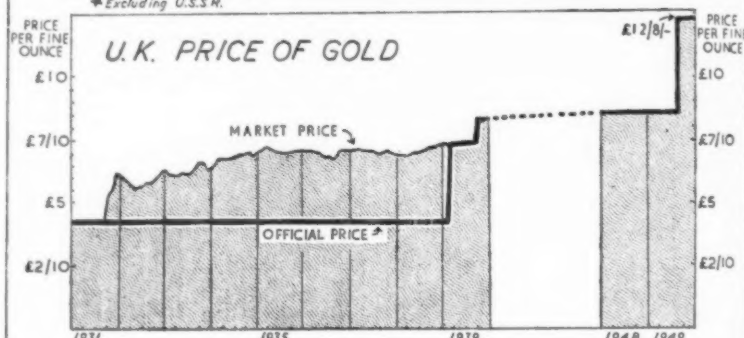
PERSONAL EXPENDITURE

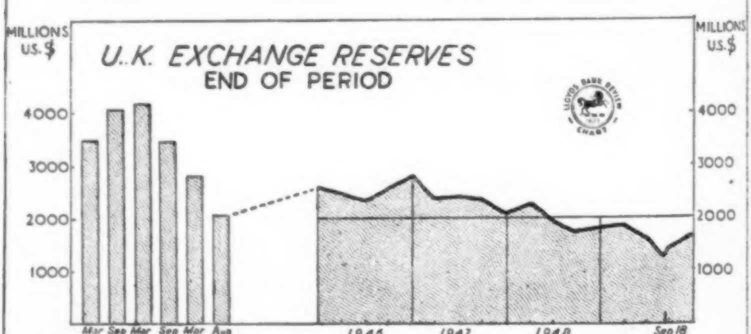


SOURCE: Monthly Digest of Statistics

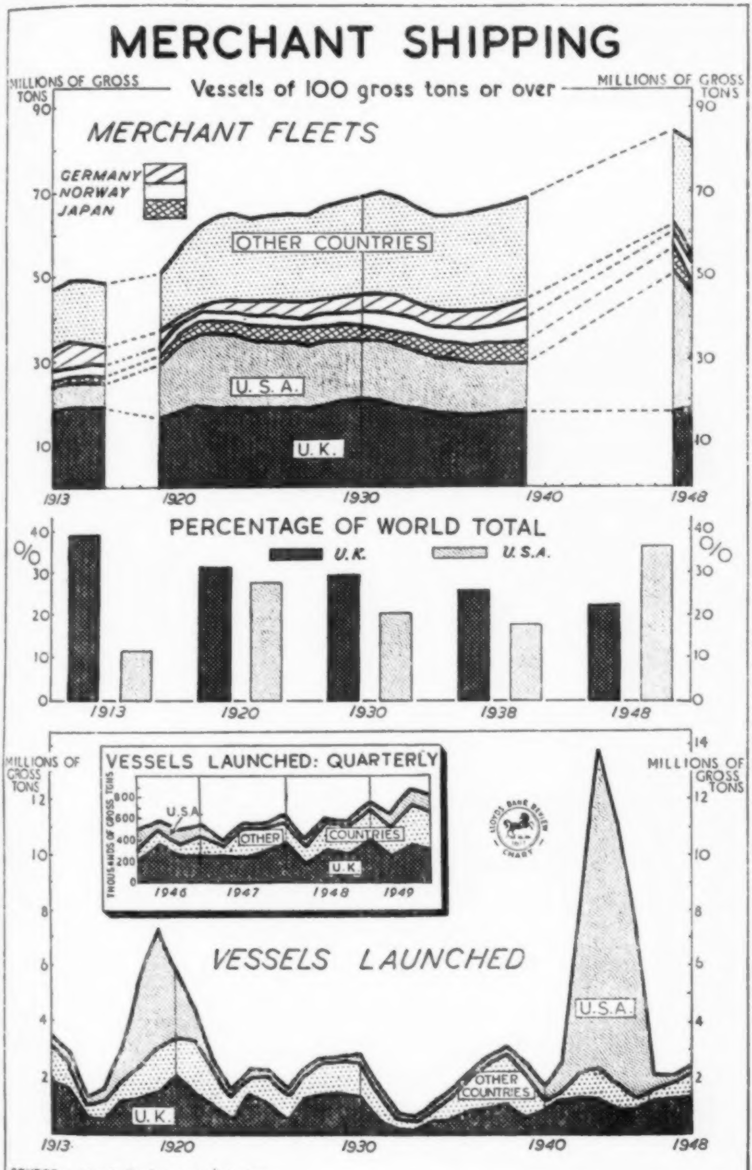
GOLD



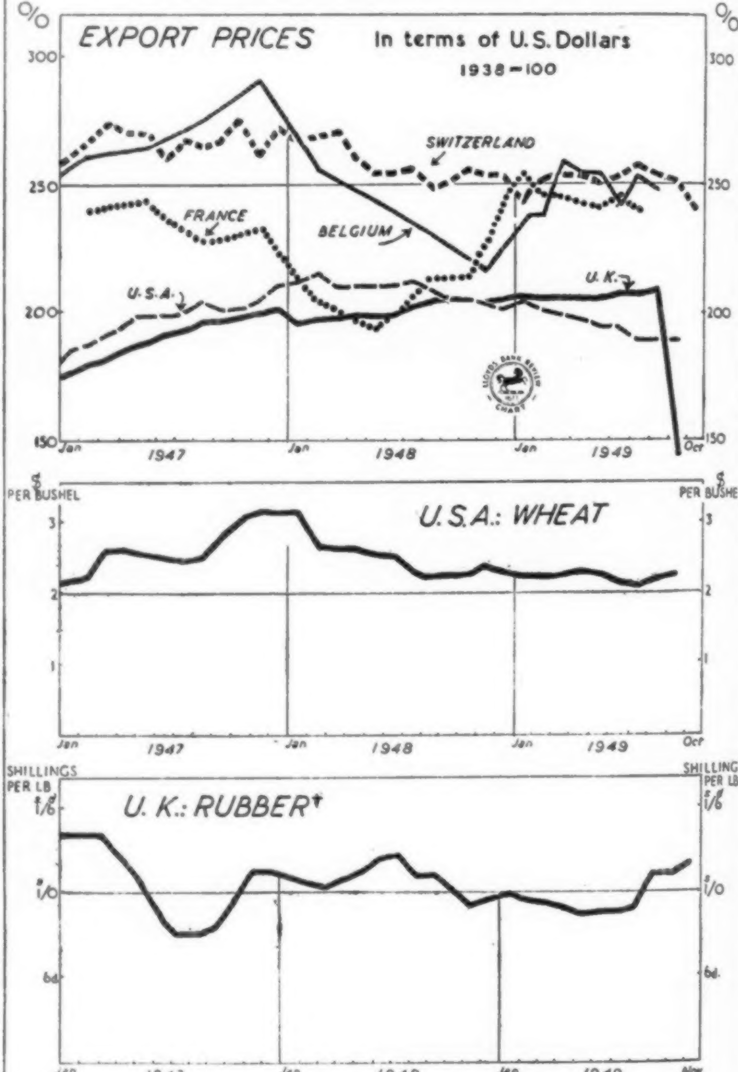




SOURCES: I.M.F. International Financial Statistics
The Bankers' Almanac
Balance of Payments White Papers

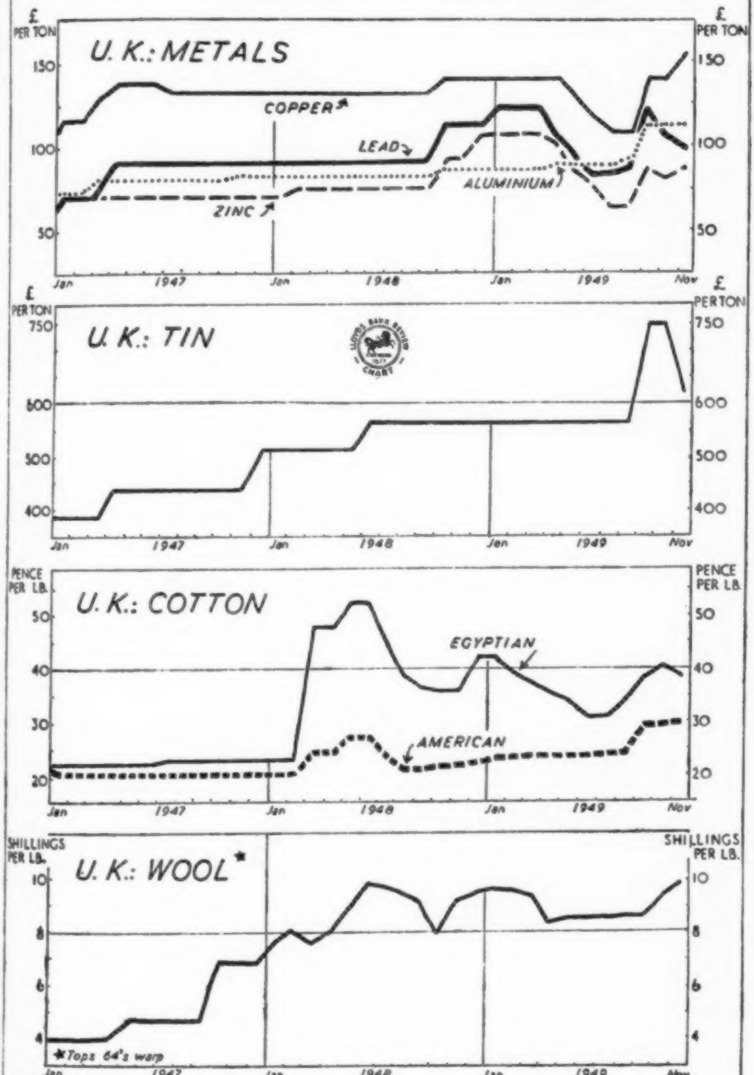

MERCHANT SHIPPING
Vessels of 100 gross tons or over
MILLIONS OF GROSS TONS
MERCHANT FLEETS
GERMANY
NORWAY
JAPAN
OTHER COUNTRIES
U.S.A.
U.K.
1913
1920
1930
1940
1948
PERCENTAGE OF WORLD TOTAL
U.K.
U.S.A.
%
1913
1920
1930
1938
1948
VESSELS LAUNCHED: QUARTERLY
THOUSANDS OF GROSS TONS
U.S.A.
OTHER
COUNTRIES
U.K.
1946
1947
1948
1949
MILLIONS OF GROSS TONS
VESSELS LAUNCHED
U.S.A.
OTHER COUNTRIES
U.K.
1913
1920
1930
1940
1948
SOURCE : Lloyd's Register of Shipping

COMMODITY PRICES

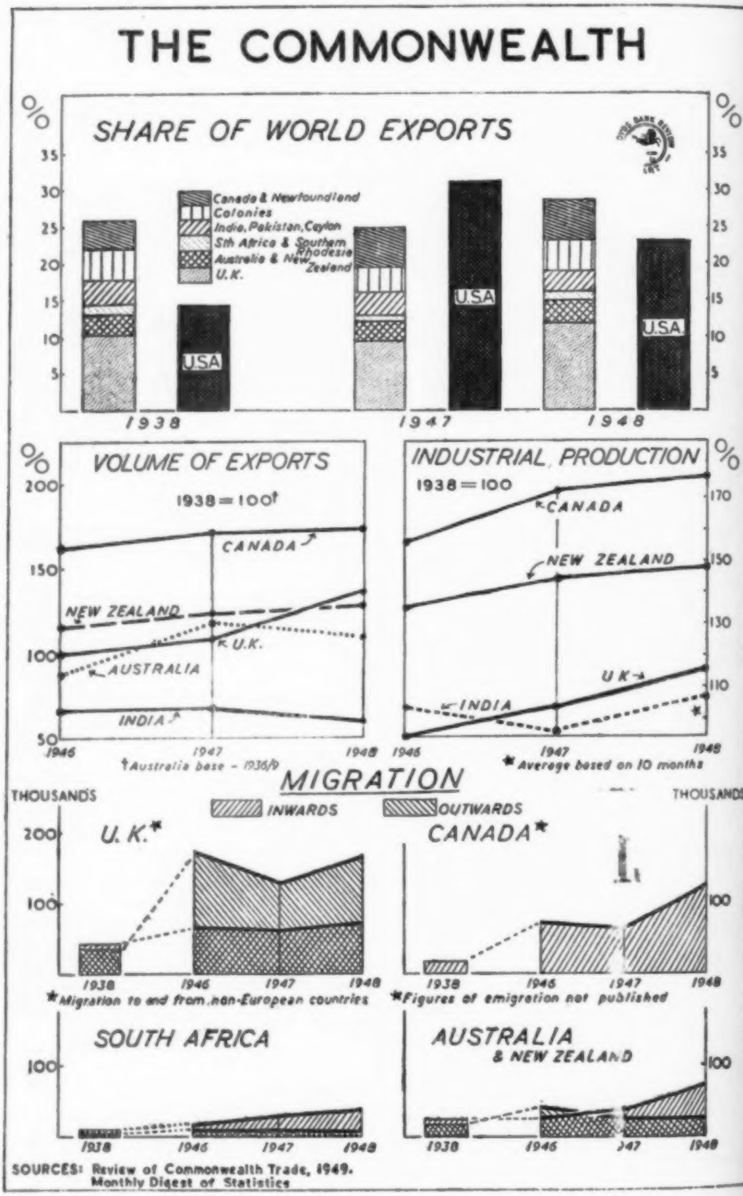


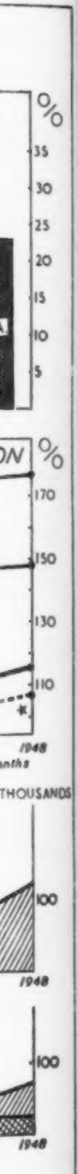
†Note: January to March 1947, official Board of Trade selling price

COMMODITY PRICES



SOURCES: The Economist
I.M.F. International Financial Statistics
Survey of Current Business


THE COMMONWEALTH
SHARE OF WORLD EXPORTS
%
35
30
25
20
15
10
5
Canada & Newfoundland
Colonies
India, Pakistan, Ceylon
Sth Africa & Southern Rhodesia
Australia & New Zealand
U.K.
U.S.A.
1938
1947
1948
VOLUME OF EXPORTS
1938=100†
200
150
100
50
CANADA
NEW ZEALAND
U.K.
AUSTRALIA
INDIA
1946
1947
1948
†Australia base - 1936/9
INDUSTRIAL PRODUCTION
1938=100
170
150
130
110
CANADA
NEW ZEALAND
UK
INDIA
* Average based on 10 months
MIGRATION
THOUSANDS
INWARDS
OUTWARDS
U.K.*
CANADA*
*Migration to and from non-European countries
*Figures of emigration not published
SOUTH AFRICA
AUSTRALIA
& NEW ZEALAND
SOURCES: Review of Commonwealth Trade, 1949.
Monthly Digest of Statistics


%
35
30
25
20
15
10
5
ON
%
170
150
130
110
1948
THOUSANDS
100
1948
100
1948